



# WEINLANDER FITZHUGH

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& CONSULTANTS

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## BOARD OF COUNTY ROAD COMMISSIONERS COUNTY OF BAY DEPARTMENT OF WATER AND SEWER

Annual Financial Statements

December 31, 2004

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# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

09-7518

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Bay County Dept of Water and Sewer</b>		County <b>Bay</b>
Audit Date <b>12/31/04</b>	Opinion Date <b>3/21/05</b>	Date Accountant Report Submitted to State: <b>5/13/08</b>		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Weinlander Fitzhugh</b>			
Street Address <b>P O Box 775</b>		City <b>Bay City</b>	State <b>MI</b>
Accountant Signature <i>Stewart J Reid CPA</i>		ZIP <b>48707</b>	
		Date <b>5/13/05</b>	

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ROBERT J. DUYCK, CPA

March 21, 2005

## Independent Auditors' Report

Board of County Road Commissioners  
Bay County Department of Water and Sewer  
Bay County, Michigan

We have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Bay County Department of Water and Sewer, a component unit of the Bay County Road Commission, as of and for the year ended December 31, 2004, which collectively comprise the Bay County Department of Water and Sewer's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Bay County Department of Water and Sewer's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the Bay County Department of Water and Sewer, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

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# WEINLANDER FITZHUGH

Board of County Road Commissioners  
Bay County Department of Water and Sewer  
March 21, 2005  
Page 2

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2005, on our consideration of Bay County Department of Water and Sewer's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

## **Required Supplemental Information**

The management's discussion and analysis on pages 3a through 3g, are not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles and the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Weinlander Fitzhugh*

**Board of County Road Commissioners**  
**County of Bay**  
**Department of Water and Sewer**  
**Management's Discussion & Analysis**  
**For the Year Ended December 31, 2004**

The Bay County Department of Water and Sewer is presenting the following discussion and analysis in order to provide an overall review of the Department's financial activities for the fiscal year ending December 31, 2004. We encourage readers to consider the information presented here in conjunction with the Department's financial statements, and notes to the basic financial statements to enhance their understanding of the Department's financial performance.

**FINANCIAL HIGHLIGHTS**

- The Department of Water & Sewer's net assets decreased \$646,000.
- For 2004 "operating revenues" decreased \$55,000 while "operating expenses" decreased \$218,000.
- Capital contributions decreased \$328,000.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The annual report includes management's discussion and analysis report, the independent auditor's report and the basic financial statements of the DWS. The financial statements also include notes that explain in more detail some of the information in the financial statements.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the DWS's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the Department's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation.

The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements report functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The business-type activities of the Department are the Water and Sewer systems.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Department, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Department can be divided into two categories: proprietary funds and fiduciary funds.

**Board of County Road Commissioners**  
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**For the Year Ended December 31, 2004**

**Proprietary funds.** Enterprise funds are used to report the same functions presented as business type-activities in the government-wide financial statements. The Department uses enterprise funds to account for its water and sewer systems.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer funds since both are considered to be major funds of the Department.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Department's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**FINANCIAL ANALYSIS OF THE DEPARTMENT**

The most common financial question posed to the DWS is "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities report information about the District's activities in a way that will help answer this question. These two statements report the net assets of the DWS and the changes in them.

**Net Assets**

The statement of net assets provides the perspective of the DWS as a whole. Exhibit A provides a summary of the DWS's net assets as of December 31, 2004.

**Board of County Road Commissioners**  
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**Management's Discussion & Analysis**  
**For the Year Ended December 31, 2004**

**Exhibit A**

	<u>2004</u>	<u>2003</u>
	(in thousands)	(in thousands)
<b>Assets</b>		
Current and other assets	\$ 20,817	\$ 23,333
Capital assets - net of accumulated depreciation	19,395	20,077
Total assets	<u>40,212</u>	<u>43,410</u>
<b>Liabilities</b>		
Current liabilities	578	520
Long-term liabilities	17,572	20,182
Total liabilities	<u>18,150</u>	<u>20,702</u>
<b>Net Assets</b>		
Invested in capital assets	19,287	19,917
Restricted	402	1,198
Unrestricted	2,373	1,593
Total net assets	<u>\$ 22,062</u>	<u>\$ 22,708</u>

Exhibit A focuses on net assets of the DWS. The DWS's net assets were approximately \$22.1 million at December 31, 2004. Capital assets, net of related debt, totaling \$19.3 million compares the original costs, less depreciation of the DWS's capital assets to long-term debt used to finance the acquisition of those assets, if any.

The \$400,000 in restricted net assets represents reserves for sewer system replacement and reserves for debt retirement in accordance with bond ordinances.

The \$2.4 million in unrestricted net assets of business type activities represents the *accumulated* results of all past and current years' operations.

The results of this year's operations for the DWS as a whole are reported in the statement of activities, which shows the changes in net assets for the year ended December 31, 2004. Exhibit B provides a summary of 2004 operations.



**Board of County Road Commissioners**  
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**Management's Discussion & Analysis**  
**For the Year Ended December 31, 2004**

**Exhibit B**

<b>Revenue</b>	<u>2004</u> <u>(In Thousands)</u>	<u>2003</u> <u>(In Thousands)</u>
Program revenue:		
Charges for service	\$ 4,387	\$ 4,618
Capital contributions	-	328
General revenue:		
Investment earnings	33	30
Operating transfers from fiduciary funds	3	13
Other	47	19
	<u>4,470</u>	<u>5,008</u>
<b>Function/Program Expenses</b>		
Water	1,430	1,727
Sewer	3,686	3,789
	<u>5,116</u>	<u>5,516</u>
<b>Decrease in Net Assets</b>	<u>\$ (646)</u>	<u>\$ (508)</u>

While the Statement of Activities (page 5) shows the change in financial position of net assets, the Statement of Revenues, Expenses, and Changes in Fund Net Assets (page 7) provides answers as to the nature and source of these changes. As can be seen in Exhibit B above, the decrease in charges for service and capital contributions is the major factor in the decrease in net assets in 2004.

The Department's charges for service decreased by \$213,000 to \$4,387,000 in 2004 due to a decrease in interest income on leases and a reduction in gross service charges. General revenues increased because of an increase other revenue.

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**For the Year Ended December 31, 2004**

**FINANCIAL ANALYSIS OF THE DEPARTMENT'S FUNDS**

**Proprietary funds.** The Department's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

(In Thousands)	<b>2004</b>	
	<u>Water</u>	<u>Sewer</u>
Gross service charges	\$ 1,117	\$ 1,632
Cost of water	607	-
Gross profit	510	1,632
Operating revenue	143	684
Operating expenses	(484)	(3,202)
Nonoperating revenue	57	14
Change in net assets	<u>\$ 226</u>	<u>\$ (872)</u>
Total net assets - end of year	<u>\$ 4,528</u>	<u>\$ 17,534</u>

(In Thousands)	<b>2003</b>	
	<u>Water</u>	<u>Sewer</u>
Gross service charges	\$ 1,223	\$ 1,608
Cost of water	(656)	-
Gross profit	567	1,608
Operating revenue	138	663
Operating expenses	(658)	(3,197)
Nonoperating revenue	275	96
Change in net assets	<u>\$ 322</u>	<u>\$ (830)</u>
Total net assets - end of year	<u>\$ 4,302</u>	<u>\$ 18,406</u>

**Budgetary Highlights**

The preparation of budgets is not required for proprietary funds or fiduciary funds.

**Board of County Road Commissioners**  
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**Capital Assets**

The Department of Water and Sewer had \$19,395,000 (net of accumulated depreciation) invested in capital assets as of December 31, 2004. The investment in capital assets includes land, buildings, improvements other than buildings, machinery and equipment, a water system and a sewer system.

	<u>2004</u> (In Thousands)	<u>2003</u> (In Thousands)
Land	\$ 63	\$ 63
Construction in Progress	3	65
Buildings	13,251	13,227
Improvements other than buildings	76	76
Machinery and Equipment	8,451	8,340
Water System	3,435	3,334
Sewer System	17,170	17,170
	<hr/>	<hr/>
Total capital assets	42,449	42,275
	<hr/>	<hr/>
Less accumulated depreciation	23,054	22,198
	<hr/>	<hr/>
Net capital assets	<u>\$ 19,395</u>	<u>\$ 20,077</u>

**Long-Term Debt**

As of December 31, 2004, the Department of Water and Sewer had \$17,229,000 in outstanding debt. This is a reduction of \$2,606,000 from December 31, 2003. The reduction represents principal payments made during the 2004 fiscal year.

The Portsmouth Extension Revenue Bonds and 38.69% of the Bay County Water Supply System 1987 Series General Obligation Bonds are obligations of the Bay County Department of Water and Sewer. The balance of the County obligated long-term debt is paid from contractual obligations with various local units. Additional information on the Bay County Department of Water and Sewer's long-term debt is provided in Note 5 of the financial statements.

**Board of County Road Commissioners**  
**County of Bay**  
**Department of Water and Sewer**  
**Management's Discussion & Analysis**  
**For the Year Ended December 31, 2004**

**Factors Expected to Have an Effect on Future Operations**

Effective January 2005, the townships of Bangor, Frankenlust, Kawkawlin, Monitor and Williams, the City of Auburn, Bay County, and the Bay County Road Commission amended the Bay County West Side Regional Sewage Disposal System contract with a new rate methodology. This was in response to operating losses for the last three years in the DWS sewer fund, due to a regional sewer rate that was unchanged since approximately 1985. The new regional sewer rate will increase the service charge revenue to the DWS sewer fund by approximately 25%, from \$1.6 million in 2004 to \$2.0 million in 2005. Also in years 2006 and beyond, the regional sewer rate will be established using the new methodology to recover the estimated annual operations and maintenance expenses in the DWS sewer fund.

**Contacting The Department's Management**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Department's finances and to show the Department's accountability for the money it receives. If you have questions about this report or need additional information, contact our Director of Finance at 3933 Patterson Road, Bay City, Michigan 48706.

**Board of County Road Commissioners**  
**County of Bay**  
**Department of Water and Sewer**  
**Statement of Net Assets**  
**December 31, 2004**

	<u>Business- Type Activities</u>
<u>Assets</u>	
Cash and investments	\$ 2,973,419
Accounts receivable - net of allowance for uncollectible of \$7,000	175,040
Interest receivable	150,958
Inventory - at cost	331,196
Prepaid expenses	22,466
Restricted assets - cash and investments	40,000
Lease receivable	17,123,602
Capital assets less accumulated depreciation of \$23,054,454	<u>19,395,204</u>
Total assets	<u>40,211,885</u>
<u>Liabilities</u>	
Accounts payable	365,853
Accrued payroll	43,262
Accrued interest payable	148,933
Deferred revenue and advances	19,957
Long-term liabilities:	
Due within one year	2,690,849
Due in more than one year	<u>14,881,113</u>
Total liabilities	<u>18,149,967</u>
<u>Net Assets</u>	
Investment in capital assets - net of related debt	19,287,261
Restricted	401,996
Unrestricted	<u>2,372,661</u>
Total net assets	<u><u>\$ 22,061,918</u></u>

See accompanying notes to financial statements

**Board of County Road Commissioners**  
**County of Bay**  
**Department of Water and Sewer**  
**Statement of Activities**  
**For The Year Ended December 31, 2004**

<u>Function/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Business-Type Activities</u>
		<u>Charges for Service</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
Business-type Activities					
Water	\$ 1,430,312	\$ 1,586,179	\$ 0	\$ 0	\$ 155,867
Sewer	<u>3,686,499</u>	<u>2,800,882</u>	<u>0</u>	<u>0</u>	<u>(885,617)</u>
Total business-type activities	<u>\$ 5,116,811</u>	<u>\$ 4,387,061</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>(729,750)</u>
General revenues:					
Interest and investment earnings					33,610
Operating transfers from fiduciary funds					2,756
Other					<u>47,303</u>
Total general revenues					<u>83,669</u>
Change in net assets					(646,081)
Net assets - beginning of year					<u>22,707,999</u>
Net assets - end of year					<u>\$ 22,061,918</u>

See accompanying notes to financial statements

**Board of County Road Commissioners**  
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**Statement of Net Assets**  
**Proprietary Funds**  
**December 31, 2004**

		<u>Business-type Activities - Enterprise Funds</u>		
		<u>Water</u>	<u>Sewer</u>	<u>Total</u>
	<u>Assets</u>			
Current assets:				
Cash and investments		\$ 1,749,972	\$ 1,223,447	\$ 2,973,419
Accounts receivable		155,571	26,469	182,040
Less allowance for uncollectible accounts		(7,000)	0	(7,000)
Interest receivable		58,540	92,418	150,958
Inventory - at cost		310,871	20,325	331,196
Prepaid expenses		1,704	20,762	22,466
Total current assets		<u>2,269,658</u>	<u>1,383,421</u>	<u>3,653,079</u>
Restricted assets - cash and investments				
Lease receivable		40,000	0	40,000
		6,103,602	11,020,000	17,123,602
Capital assets - at cost				
Less allowance for depreciation		4,921,016	37,528,642	42,449,658
Net capital assets		<u>(2,224,304)</u>	<u>(20,830,150)</u>	<u>(23,054,454)</u>
Total assets		<u>2,696,712</u>	<u>16,698,492</u>	<u>19,395,204</u>
		<u>11,109,972</u>	<u>29,101,913</u>	<u>40,211,885</u>
	<u>Liabilities</u>			
Current liabilities:				
Bonds and leases payable		654,363	1,985,000	2,639,363
Accounts payable		240,862	124,991	365,853
Accrued payroll		22,610	20,652	43,262
Accrued interest payable		58,250	90,683	148,933
Advances		19,957	0	19,957
Compensated absences		4,757	46,729	51,486
Total current liabilities		<u>1,000,799</u>	<u>2,268,055</u>	<u>3,268,854</u>
Long-term liabilities:				
Compensated absences		26,955	264,798	291,753
Bonds and leases payable		5,554,360	9,035,000	14,589,360
Total long-term liabilities		<u>5,581,315</u>	<u>9,299,798</u>	<u>14,881,113</u>
Total liabilities		<u>6,582,114</u>	<u>11,567,853</u>	<u>18,149,967</u>
	<u>Net Assets</u>			
Investment in capital assets - net of related debt		2,588,769	16,698,492	19,287,261
Restricted		40,000	361,996	401,996
Unrestricted		1,899,089	473,572	2,372,661
Total net assets		<u>\$ 4,527,858</u>	<u>\$ 17,534,060</u>	<u>\$ 22,061,918</u>

See accompanying notes to financial statements

**Board of County Road Commissioners**  
**County of Bay**  
**Department of Water and Sewer**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For The Year Ended December 31, 2004**

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Total
Gross service charges	\$ 1,117,097	\$ 1,632,166	\$ 2,749,263
Water costs	606,857	0	606,857
Gross profit	510,240	1,632,166	2,142,406
Operating revenues:			
Service connections	20,290	0	20,290
Charges, fees, etc.	123,026	684,135	807,161
Total operating revenues	143,316	684,135	827,451
Operating expenses:			
Personal services	185,271	1,285,249	1,470,520
Utilities	5,900	231,667	237,567
Chemicals	0	70,113	70,113
Operation and maintenance	41,552	255,376	296,928
Local operation and maintenance expenses	0	510,714	510,714
Administration	40,982	148,905	189,887
Fiscal and other charges	22,628	9,876	32,504
Depreciation	187,803	690,018	877,821
Total operating expenses	484,136	3,201,918	3,686,054
Operating income (loss)	169,420	(885,617)	(716,197)
Nonoperating revenues (expenses):			
Other net revenue	47,303	0	47,303
Interest income	19,818	13,792	33,610
Interest expense	(339,319)	(484,581)	(823,900)
Interest income on leases	325,766	484,581	810,347
Operating transfers in (out)	2,756	0	2,756
Change in net assets	225,744	(871,825)	(646,081)
Net assets - beginning of year	4,302,114	18,405,885	22,707,999
Net assets - end of year	\$ 4,527,858	\$ 17,534,060	\$ 22,061,918

See accompanying notes to financial statements



**Board of County Road Commissioners**  
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**Statement of Cash Flows**  
**Proprietary Funds**  
**For The Year Ended December 31, 2004**

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>
Cash flows from operating activities:			
Cash received from customers	\$ 1,143,885	\$ 1,625,174	\$ 2,769,059
Cash payments to suppliers for goods and services	(730,328)	(1,201,393)	(1,931,721)
Cash payments to employees for services	(206,223)	(1,283,954)	(1,490,177)
Other operating income	143,316	684,135	827,451
Net cash provided (used) by operating activities	<u>350,650</u>	<u>(176,038)</u>	<u>174,612</u>
Cash flows from capital and related financing activities:			
Advances (payments) from (to) other funds	(59,936)	62,692	2,756
Principal paid on long-term debt	(50,052)	0	(50,052)
Interest paid on long-term debt	(16,482)	0	(16,482)
Proceeds from long-term debt	0	0	0
Payments from local units	47,303	0	47,303
Acquisition and construction of capital assets	<u>(83,892)</u>	<u>(112,494)</u>	<u>(196,386)</u>
Net cash used by capital and related financing activities	<u>(163,059)</u>	<u>(49,802)</u>	<u>(212,861)</u>
Cash flows from investing activities:			
Interest and investment earnings	<u>18,055</u>	<u>12,941</u>	<u>30,996</u>
Net increase (decrease) in cash and cash equivalents	205,646	(212,899)	(7,253)
Cash and cash equivalents, beginning of year	<u>1,584,326</u>	<u>1,436,346</u>	<u>3,020,672</u>
Cash and cash equivalents, end of year	<u>\$ 1,789,972</u>	<u>\$ 1,223,447</u>	<u>\$ 3,013,419</u>

See accompanying notes to financial statements

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**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**December 31, 2004**

		<u>Private Purpose Trust Funds</u>		
		<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<u>Assets</u>				
Current assets:				
Cash and investments		\$ 3,606,472	\$ 3,158,718	\$ 6,765,190
Accounts receivable		399,729	490,709	890,438
Less allowance for uncollectible accounts		(1,000)	0	(1,000)
Interest receivable		7,460	5,779	13,239
Special assessments		0	822,969	822,969
Prepaid expenses		7,833	232	8,065
Total current assets		<u>4,020,494</u>	<u>4,478,407</u>	<u>8,498,901</u>
Restricted assets - cash and investments		8,309	0	8,309
Total assets		<u>4,028,803</u>	<u>4,478,407</u>	<u>8,507,210</u>
<u>Liabilities</u>				
Current liabilities:				
Accounts payable		262,574	127,129	389,703
Accrued payroll		4,070	87	4,157
Deferred revenue and advances		15,589	822,969	838,558
Compensated absences		22,167	463	22,630
Total current liabilities		<u>304,400</u>	<u>950,648</u>	<u>1,255,048</u>
Long-term liabilities:				
Compensated absences		125,618	2,622	128,240
Total long-term liabilities		<u>125,618</u>	<u>2,622</u>	<u>128,240</u>
Total liabilities		<u>430,018</u>	<u>953,270</u>	<u>1,383,288</u>
<u>Net Assets</u>				
Restricted		448,229	0	448,229
Unrestricted		3,150,556	3,525,137	6,675,693
Total net assets		<u>\$ 3,598,785</u>	<u>\$ 3,525,137</u>	<u>\$ 7,123,922</u>

See accompanying notes to financial statements

**Board of County Road Commissioners**  
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**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Funds**  
**For The Year Ended December 31, 2004**

	Private Purpose Trust Funds		
	Water	Sewer	Total
Gross service charges	\$ 4,336,019	\$ 3,689,980	\$ 8,025,999
Water and sewer costs	2,188,433	210,899	2,399,332
Gross profit	2,147,586	3,479,081	5,626,667
Operating revenues:			
Service connections	190,050	228,871	418,921
Charges, fees, etc.	25,851	9,825	35,676
Total operating revenues	215,901	238,696	454,597
Operating expenses:			
Personal services	818,629	24,607	843,236
Utilities	24,121	2,980	27,101
Regional charges	0	1,632,166	1,632,166
Operation and maintenance	291,769	3,200	294,969
Local operation and maintenance expenses	0	510,714	510,714
Administration	175,624	9,321	184,945
Fiscal and other charges	66,463	11,539	78,002
Total operating expenses	1,376,606	2,194,527	3,571,133
Operating income	986,881	1,523,250	2,510,131
Nonoperating revenues (expenses):			
Interest income	40,069	42,361	82,430
Lease expense	(918,813)	(2,472,763)	(3,391,576)
Payment by local unit	728,032	958,851	1,686,883
Payment to local unit	(378,887)	(194,387)	(573,274)
Operating transfers in (out)	(2,756)	0	(2,756)
Change in net assets	454,526	(142,688)	311,838
Net assets - beginning of year	3,144,259	3,667,825	6,812,084
Net assets - end of year	\$ 3,598,785	\$ 3,525,137	\$ 7,123,922

See accompanying notes to financial statements

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Department of Water and Sewer (DWS) conform to U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Department of Water and Sewer.

**Reporting Entity**

The Department of Water and Sewer was organized in 1975 and is located in Bay County, Michigan. The Department provides water and sewer services to approximately 18,170 customers as authorized by Monitor, Bangor, Frankenlust, Portsmouth, Williams, Beaver, Merritt, Pinconning, Kawkawlin and Fraser Townships, City of Auburn, Beaver Road Water Association and Bay County.

The County of Bay is governed by Public Act 139 of the State of Michigan, known as the "Unified County Government Act." While Public Act 139 allows a department of public works to remain within a unified county government, it does not provide the department with bonding powers. In order to secure these bonding powers, the County of Bay Department of Water and Sewer was reorganized under Act 342 which transferred control of the Department to the Bay County Board of County Road Commissioners. Accordingly, the County of Bay Department of Water and Sewer is treated as a component unit of the Bay County Road Commission.

The Department is governed by an elected Board of the Bay County Road Commission. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which governmental organizations are a part of the Department's reporting entity, and which organizations are legally separate component units of the Department. The Department has no component units.

A primary focus of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34) is on the ownership of capital assets and the legal obligation to repay any related debt.

The DWS operations include water and sewer lines that were constructed and financed under varying scenarios. While certain debt issues may be the general obligation of Bay County, in most cases a local unit is primarily responsible for the repayment of the debt. The local units have the sole authority to set rates and are financially responsible for the integrity of their systems. Under certain circumstances, the local units have the right to operate their system.

Management has determined that the DWS is acting in a fiduciary capacity for the local units and ownership of the capital assets and related debt resides with them. Accordingly, these financial statements include only the activities for which the DWS owns the capital assets. A separate reporting of local unit activities is made to them.

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. All of the Department's government-wide activities are considered business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operations or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual enterprise funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The government reports the following major proprietary funds:

The Water Fund accounts for the activities of the water distribution system.

The Sewer Fund accounts for the activities of the sewage collection system.

Additionally, the government reports the following fund types:

The Private Purpose Trust Funds account for the activities of the water and sewer operations of other local government units.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989 for its business-type activities.

**Board of County Road Commissioners  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relate to charges to customers for water and sewer services. The water and sewer funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

**Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits and Investments**— Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables**— In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the fiduciary activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade receivables are shown as net of allowance for uncollectible amounts.

**Inventories and Prepaid Items**— Inventories are valued at cost, on a first-in, first-out basis. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**Restricted Assets**— The revenue bonds of the enterprise funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

**Capital Assets**— Capital assets, which include property, plant, and equipment are reported in the applicable business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$2,500 and any assets susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**Board of County Road Commissioners  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, \$0 of interest expense was capitalized as part of the cost of assets under construction.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 50 years
Building Improvements	7 to 30 years
Water and Sewer Lines	40 to 50 years
Vehicles	5 to 7 years
Other Equipment	5 to 10 years
Computer Equipment	5 to 7 years

Compensated Absences - The liability for compensated absences reported in the district-wide proprietary and fiduciary fund financial statements consists of unpaid, accumulated sick, vacation, and longevity pay benefits. The liability has been calculated using the vesting method, in which the obligation for employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-Term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

General Obligation Bonds - The Sewage Disposal and Water System General Obligation Bonds are backed by the limited tax, full faith and credit of the County. Debt service requirements are funded by various local government contributions, investment earnings and user and maintenance charges.

Deferred Revenue - Deferred revenue represents amounts which are measurable but not available. Deferred revenue consists mainly of special assessments receivable for connection fees collected in advance.

Contributed Capital - The DWS has received federal and state grants to pay a portion of the construction costs of the wastewater treatment facility and transmission and distribution system assets. The DWS also receives contributions from local districts to finance construction of transmission and distribution system assets and future repairs by the DWS.

Use of Estimates - The process of preparing the basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**Board of County Road Commissioners  
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**NOTE 2 – DEPOSITS AND INVESTMENTS**

The DWS maintains a cash and investment pool account that is available for use by all funds. Each fund's portion of this pool account is accounted for separately and included in "cash and investments" on the statement of net assets. Interest income is allocated to each local unit.

The Department of Water and Sewer has not adopted an official investment policy of its own and, therefore, utilizes the County of Bay's policy. The policy authorizes the DWS to make deposits in the accounts of federally insured banks, credit unions, and saving and loan associations that have offices in Michigan. The DWS is also allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The DWS's deposits are in accordance with statutory authority.

The DWS's deposits and investments were reported in the basic financial statements as follows:

Business-type activities	\$ 3,013,419
Fiduciary funds	<u>6,773,499</u>
Total	<u><u>\$ 9,786,918</u></u>

At December 31, 2004, the book value of the DWS's demand deposits consisting of checking, savings, and certificates of deposits was \$9,786,918 with a corresponding bank balance of \$9,819,417. The amount of deposits covered by federal depository insurance cannot be determined since other County deposits would need to be considered.



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**NOTE 3 – CAPITAL ASSETS**

Capital asset activity of the DWS for the current year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ 62,791	\$ 0	\$ 0	\$ 62,791
Construction in Progress	64,685	0	(61,985)	2,700
Subtotal	127,476	0	(61,985)	65,491
Capital Assets Being Depreciated:				
Buildings	13,226,492	24,400	0	13,250,892
Improvements other than buildings	76,474	0	0	76,474
Machinery and Equipment	8,340,349	134,679	(23,605)	8,451,423
Water System	3,334,268	101,342	0	3,435,610
Sewer System	17,169,768	0	0	17,169,768
Subtotal	42,147,351	260,421	(23,605)	42,384,167
Less Accumulated Depreciation for:				
Buildings	5,817,085	280,738	0	6,097,823
Improvements other than buildings	70,580	589	0	71,169
Machinery and Equipment	7,514,964	170,663	(21,555)	7,664,072
Water System	1,245,296	82,436	0	1,327,732
Sewer System	7,550,263	343,395	0	7,893,658
Subtotal	22,198,188	877,821	(21,555)	23,054,454
Net Capital Assets Being Depreciated	19,949,163	(617,400)	(2,050)	19,329,713
Net Capital Assets	<u>\$ 20,076,639</u>	<u>\$ (617,400)</u>	<u>\$ (64,035)</u>	<u>\$ 19,395,204</u>

**Board of County Road Commissioners  
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Notes to Financial Statements  
December 31, 2004**

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**NOTE 4 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

A summary of inter-fund receivable and payable balances at December 31, 2004 and transfers made during the year ended December 31, 2004 is as follows:

<u>Fund</u>	<u>Receivables</u>	<u>Payables</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Water	\$ 0	\$ 0	\$ 4,168	\$ 1,412
Sewer	0	0	0	0
Fiduciary	0	0	924	3,680
	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,092</u>	<u>\$ 5,092</u>

Transfers are used for the construction and purchase of capital assets and for water studies.

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**NOTE 5 - LONG-TERM DEBT**

Bay County Water Supply System 1987 Series General Obligation Bonds, dated February 1, 1987, due in annual installments through September 1, 2006, bearing interest rate of 8%, net of unamortized discount of \$1,277.	\$ 273,723
Bay County Water Supply System (Beaver Extension) General Obligation Bonds, dated November 1, 1999, due in annual installments through November 1, 2011, bearing interest rates of 5.0% to 5.4%.	700,000
1998 Merritt-Portsmouth Townships Water Extension General Obligation Bonds, dated July 1, 1998, due in annual installments through May 1, 2018, bearing interest rates of 4.7% to 4.75%.	1,915,000
2000 Merritt Township Water Extension General Obligation Bonds, dated September 1, 2000, due in annual installments through November 1, 2020, bearing interest rates of 4.85% to 5.25%.	1,755,000
Kawkawlin-Fraser Water Extension General Obligation Bonds, dated July 1, 1998, due in annual installments through July 1, 2018, bearing interest rate of 5%.	1,075,000
Bay County Water Supply System (County Service Area) 1990 Series General Obligation Bonds, dated February 1, 1990, due in annual installments through May 1, 2009, bearing interest rates of 7.2% to 7.3%.	250,000
Bay County Water Supply System (City of Pinconning Extension) 1996 Refunding General Obligation Bonds, dated May 1, 1997, due in annual installments through February 1, 2007, bearing interest rates of 4.8% to 5.2%.	240,000
Bay County Sewage Disposal (Essexville Sewage Disposal System Improvements) General Obligation Bonds, dated March 27, 1997, due in annual installments through October 1, 2017, bearing interest rate of 2.25%.	1,395,000
Portsmouth Sewer General Obligation Bonds, dated September 26, 1991 and December 20, 1991, due in annual installments through October 1, 2012, bearing interest rate of 2%.	3,325,000
Bay County West Side Regional Sewage Disposal System General Obligation Bonds, dated July 1, 1978, due in annual installments through May 1, 2008, bearing interest rates of 5.5% to 6.5%.	<u>6,300,000</u>
Total Bonds Payable	<u>\$ 17,228,723</u>

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**NOTE 5 - LONG-TERM DEBT (CONTINUED)**

**Compensated Absences**

The Department of Water and Sewer has an employee benefit plan that allows employees to accumulate unused sick days up to a maximum of 120 days. Union employees may either use these sick days when ill or receive payment for 70% of the unused portion at time of retirement. All other employees receive 85% of the unused portion at time employment is terminated. Employees are also allowed to accumulate unused vacation days. Employees can accumulate a maximum of 30 days to carry over at the end of the year. In addition, the DWS provides a longevity payment to all supervisory and administrative employees at time of retirement. The benefit is based on years of employment times one-third of monthly salary, with a maximum payment of six months of salary. The cost of this benefit is recognized when earned. The total liability for compensated absences was \$343,239 for Proprietary Funds and \$150,870 for Fiduciary Funds.

The following is a summary of long-term debt transactions for the Department of Water and Sewer for the year ended December 31, 2004:

	Balance January 1, 2004	Increase	Decrease	Balance December 31, 2004	Amount Due Within One Year
Revenue Bonds	\$ 12,000	\$ 0	\$ 12,000	\$ 0	\$ 0
General Obligation Bonds	19,823,085		2,594,362	17,228,723	2,639,363
Compensated Absences	346,377	0	3,138	343,239	51,486
	<u>\$ 20,181,462</u>	<u>\$ 0</u>	<u>\$ 2,609,500</u>	<u>\$ 17,571,962</u>	<u>\$ 2,690,849</u>

The annual requirements to amortize bonds outstanding as of December 31, 2004, including interest payments, are as follows:

**General Obligation Bonds**

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 2,639,363	\$ 712,411	\$ 3,351,774
2006	2,774,360	580,067	3,354,427
2007	2,645,000	442,540	3,087,540
2008	2,570,000	318,520	2,888,520
2009	970,000	240,505	1,210,505
2010-2014	3,635,000	767,659	4,402,659
2015-2019	1,880,000	217,748	2,097,748
2020	115,000	3,019	118,019
	<u>\$ 17,228,723</u>	<u>\$ 3,282,469</u>	<u>\$ 20,511,192</u>

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**NOTE 6 – RESTRICTED NET ASSETS**

Details of restricted net assets at December 31, 2004 are as follows:

The Bay County West Side Regional Sewage Disposal System has a contractual obligation that requires \$50,000 of net assets of the Sewer Fund be reserved yearly for system replacement. During 2004, the reserve was reduced for system replacement costs of \$846,243 for years ending 1993 to 2004.

\$ 361,996

The revenue bond ordinances for the Water Fund requires certain reserves for debt retirement be maintained.

40,000

\$ 401,996

**NOTE 7 – RETIREMENT SYSTEM**

**Pension Plan**

Plan Description - Bay County Department of Water and Sewer participates in the Bay County Employees' Retirement System through the County of Bay, a single-employer defined benefit pension plan. The System operates under the authority of County ordinances. The County issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the County of Bay, 515 Center Avenue, Bay City, MI 48708.

Benefits - The plan provides retirement, disability, and death benefits to plan members and beneficiaries. Plan members may retire after reaching the age of 60 with 8 or more years of service. Eligible employees are provided benefits based on 2.25% of their final average compensation times the number of years of credited service. Maximum retirement is 75% of final average compensation, defined as the average of the highest five years.

Funding Policy - The DWS's policy is to fund normal costs which are based on actuarially determined rates, expressed as percentages of annual covered payroll, and which are sufficient to accumulate assets to pay benefits when due. The current rate for the DWS is 0% of annual covered payroll. Plan members were required to contribute at the rate of 4% of their annual salary. Prior to 2002, the DWS had been paying the plan members' contributions. There were no contributions to the plan for 2004.

Annual Pension Cost - For 2004, the DWS's annual pension cost of \$0 was equal to its required and actual contribution. The required contribution was determined as part of the December 31, 2003 actuarial evaluation, using the entry age normal cost method. The actuarial assumptions included (a) 7.5% rate of return and (b) projected salary increases of 5.0% to 12.0%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis.

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**NOTE 7 – RETIREMENT SYSTEM (CONTINUED)**

Three-year trend information:

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2002	\$ 0	100%	\$ 0
2003	0	100%	0
2004	0	100%	0

Schedule of funding progress:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/01	\$ 7,652,398	\$ 5,049,939	\$(2,602,459)	152%	\$ 1,600,116	none
12/31/02	\$ 7,610,779	\$ 5,629,364	\$(1,981,415)	135%	\$ 1,699,878	none
12/31/03	\$ 8,566,762	\$ 5,909,843	\$(2,656,919)	145%	\$ 1,804,623	none

**Retiree Health Care Plan**

Bay County Department of Water and Sewer participates in the Bay County Retiree Health Care Plan through the County of Bay. The plan is a single employer defined benefit public health care plan established effective October 1, 2001. The purpose of the plan is to provide medical and health care benefits for the welfare of certain retirees of the DWS and the spouses and dependents of such retirees who are participants in the Bay County Employees' Retirement System. Benefits under the plan are provided pursuant to a group contract issued by Blue Cross Blue Shield of Michigan. The County Board of Commissioners has the authority to establish and amend benefit provisions.

The Plan is a contributory defined benefit plan which covers substantially all employees of the DWS as defined above. Actuarial data is not available for the DWS.

The DWS contributions to the plan were \$74,665 for 2004, \$68,376 for 2003, and \$64,569 for 2002 representing 4% of covered payroll.

**Board of County Road Commissioners  
County of Bay  
Department of Water and Sewer  
Notes to Financial Statements  
December 31, 2004**

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**NOTE 8 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS**

In addition to the pension benefits described in Note 7, the DWS provides certain health care benefits for retired employees in accordance with contractual agreements. Substantially all of the DWS's employees become eligible for these benefits if they reach normal retirement age while working for the DWS. The benefits are provided through an insurance company whose premiums are based on the benefits paid during the year. The cost of these benefits is recognized as expense when paid and was \$89,032 for 2004. Ten participants were eligible to receive benefits as of December 31, 2004.

**NOTE 9 - SELF INSURANCE**

**Workers' compensation** - The DWS is self-insured for workers' compensation claims. This program is administered by an independent company which furnishes safety inspection, claims review, and claims processing services. The employers' liability maximum limit of indemnity per occurrence is \$1,000,000 and the self insured retention per occurrence is \$350,000. Net cost for the year was \$4,186.

**General, automobile and errors or omissions liability** - The DWS is a member of the Michigan County Road Commission Self-Insurance Pool. As a member of this pool, the DWS is insured for general, automobile and errors or omissions liability up to a limit of \$10,500,000 per occurrence, subject to a \$1,000 deductible. The DWS would be responsible for losses in excess of the limit. Payments made for the year ended December 31, 2004 were \$57,853.

**Building, contents, off-road equipment and licensed vehicles coverage** - The DWS is a member of the Michigan County Road Commission Self-Insurance Pool. As a member of this pool, the DWS is insured for the lesser of the scheduled value of property or the cost of repairs or replacement. Coverage is subject to a \$500 deductible and the DWS would be responsible for losses in excess of the limit. Payments made for the year ended December 31, 2004 were \$39,291.

There have been no significant losses in the past three years.

**Board of County Road Commissioners**  
**County of Bay**  
**Department of Water and Sewer**  
**Notes to Financial Statements**  
**December 31, 2004**

**NOTE 10 - RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES**

	Water Fund	Sewer Fund	Total
Operating income (loss)	\$ 169,420	\$ (885,617)	\$ (716,197)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	187,803	690,018	877,821
Change in assets and liabilities:			
Accounts receivable	6,831	(6,992)	(161)
Inventories	(57,837)	(11,395)	(69,232)
Prepaid and other current assets	(115)	(197)	(312)
Accounts payable	45,543	36,850	82,393
Accrued payroll	(20,572)	4,053	(16,519)
Advances	19,957	-	19,957
Compensated absences	(380)	(2,758)	(3,138)
Net cash provided (used) by operating activities	<u>\$ 350,650</u>	<u>\$ (176,038)</u>	<u>\$ 174,612</u>

The DWS had noncash capital and related financing transactions relating to lease receivable and general obligation debt of Bay County as described in Note 12. The DWS had noncash investing transactions relating to interest income on lease receivable.

The noncash transactions for 2004 are as follows:

	Water Fund	Sewer Fund	Total
Lease receivable	\$ 586,310	\$ 1,970,000	\$ 2,556,310
Bonds payable	586,310	1,970,000	2,556,310
Interest paid on long-term debt	325,766	484,581	810,347
Interest income on leases	325,766	484,581	810,347



**Board of County Road Commissioners  
County of Bay  
Department of Water and Sewer  
Notes to Financial Statements  
December 31, 2004**

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**NOTE 11 – COMMITMENTS AND CONTINGENT LIABILITIES**

At December 31, 2004, the DWS had \$24,954 of outstanding construction contract commitments. These relate to water line and sewer construction projects and are funded by the Water and Sewer Funds.

The DWS is engaged in routine litigation incidental to the conduct of its municipal and utilities affairs. In the opinion of legal counsel, no legal proceedings are pending against the DWS, not covered by insurance, which would inhibit the DWS's ability to perform its operations or materially affect its financial condition.

**NOTE 12 – LEASE RECEIVABLE**

The DWS operations include the construction of water and sewer lines on behalf of local units, which are financed with bonds that are the general obligation of Bay County. Contractual agreements provide for the payment of this debt by the local units through user charges, connection fees and assessments. These capital assets are owned by the local units and the responsibility to pay the related debt resides with them.

U. S. generally accepted accounting principles require governments to report this transaction as a direct financing lease/sale. Accordingly, the total obligation for bonds has been recorded as long-term debt and a like amount as a lease receivable.

Following is the component of the DWS's net investment in direct financing leases:

Total minimum lease payments to be received	\$ 20,392,915
Less unearned income	<u>(3,269,313)</u>
Net investment in direct financing leases	<u><u>\$ 17,123,602</u></u>

Future minimum lease payments for subsequent years are as follows:

<u>Year Ending December 31,</u>	
2005	\$ 3,295,537
2006	3,292,387
2007	3,087,540
2008	2,888,520
2009	1,210,505
Thereafter	<u>6,618,426</u>
	<u><u>\$ 20,392,915</u></u>



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March 21, 2005

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of County Road Commissioners  
Bay County Department of Water and Sewer  
Bay County, Michigan

We have audited the basic financial statements of the Bay County Department of Water and Sewer as of and for the year ended December 31, 2004, and have issued our report thereon dated March 21, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Bay County Department of Water and Sewer's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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# WEINLANDER FITZHUGH

Board of County Road Commissioners  
Bay County Department of Water and Sewer  
March 21, 2005

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bay County Department of Water and Sewer basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no issuances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information of the Board of County Road Commissioners, management and related regulatory agencies and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

*Weinlander Fitzhugh*



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BOARD OF COUNTY ROAD COMMISSIONERS  
COUNTY OF BAY  
DEPARTMENT OF WATER AND SEWER  
Water and Sewer Enterprise Funds  
Annual Financial Statements  
December 31, 2004

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REPORT ON INTERNAL CONTROL OVER FINANCIAL  
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MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
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March 21, 2005

## Independent Auditors' Report

Board of County Road Commissioners  
Bay County Department of Water and Sewer  
Bay County, Michigan

We have audited the accompanying financial statements of the enterprise funds managed by the Department of Water and Sewer, a component unit of the Bay County Road Commission, as of and for the year ended December 31, 2004, as listed in the table of contents. These financial statements are the responsibility of the Bay County Department of Water and Sewer's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, Issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements include the enterprise funds of the water and sewer systems of various local units that are managed by the DWS and its enterprise funds, and do not purport to, and do not, present fairly the financial position of Bay County Department of Water and Sewer, as of December 31, 2004, and the changes in its financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

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# WEINLANDER FITZHUGH

Board of County Road Commissioners  
Bay County Department of Water and Sewer  
March 21, 2005  
Page 2

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the enterprise funds managed by the Department of Water and Sewer, as of December 31, 2004, and the changes in financial position and cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2005, on our consideration of Bay County Department of Water and Sewer's internal control over financial reporting and our test of compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information listed as supplemental financial information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the enterprise funds managed by the Department of Water and Sewer. The supplemental financial information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements. The prior year comparative information on pages 27 to 35 has been derived from the DWS's 2003 financial statements and, in our report dated March 24, 2004, we expressed an unqualified opinion on those financial statements.

*Weinlander Fitzhugh*



**Board of County Road Commissioners**  
**County of Bay**  
**Department of Water and Sewer**  
**Water Enterprise Funds**  
**Statement of Net Assets**  
**December 31, 2004**

	Bangor Township	Kawkawlin - Fraser	Beaver Township	Beaver Road	Monitor Township	Williams Township
<u>Assets</u>						
Current assets:						
Cash and investments	\$ 1,483,462	\$ 484,328	\$ 19,022	\$ 19,495	\$ 695,142	\$ 633,254
Accounts receivable - net of allowance	23,166	53,687	5,709	31,451	121,635	79,181
Interest receivable	2,999	1,005	122	41	1,437	1,270
Inventory - at cost	0	0	0	0	0	0
Prepaid expenses	2,991	1,072	125	0	1,186	1,184
Total current assets	1,512,618	540,092	24,978	50,987	819,400	714,889
Restricted assets - cash and investments	0	8,309	0	0	0	0
Capital assets - at cost	5,648,866	8,730,302	2,091,432	0	4,588,978	4,381,133
Less allowance for depreciation	(2,268,129)	(2,553,805)	(267,893)	0	(2,174,765)	(1,981,695)
Net capital assets	3,380,737	6,176,497	1,823,539	0	2,414,213	2,399,438
Total assets	4,893,355	6,724,898	1,848,517	50,987	3,233,613	3,114,327
<u>Liabilities</u>						
Current liabilities:						
Bonds payable	115,311	141,624	100,000	0	63,750	89,650
Accounts payable	7,827	39,143	341	21,728	77,944	67,527
Accrued payroll	1,728	179	44	85	879	212
Accrued interest payable	1,743	33,754	5,753	0	3,720	7,574
Advances	0	8,309	0	0	0	0
Compensated absences	9,347	2,918	461	(10)	2,891	3,416
Total current liabilities	135,956	225,927	106,599	21,803	149,184	168,379
Long-term liabilities:						
Compensated absences	52,966	16,536	2,615	(54)	16,383	19,355
Bonds payable	180,280	1,953,248	600,000	0	76,500	856,580
Total long-term liabilities	233,246	1,969,784	602,615	(54)	92,883	875,935
Total liabilities	369,202	2,195,711	709,214	21,749	242,067	1,044,314
<u>Net Assets</u>						
Investment in capital assets - net of related debt	3,083,403	4,047,871	1,117,786	0	2,270,243	1,445,634
Restricted	0	0	0	0	0	22,000
Unrestricted	1,440,750	481,316	21,517	29,238	721,303	602,379
Total net assets	\$ 4,524,153	\$ 4,529,187	\$ 1,139,303	\$ 29,238	\$ 2,991,546	\$ 2,070,013

See accompanying notes to financial statements

<u>Merritt - Portsmouth</u>	<u>Pinconning Township</u>	<u>City of Pinconning</u>	<u>Frankenlust Township</u>	<u>Subtotal</u>	<u>Water Supply System #1</u>	<u>Bay County Water System</u>	<u>Combined Total</u>
\$ 140,602	\$ 8,948	\$ 0	\$ 122,219	\$ 3,606,472	\$ 1,038,978	\$ 710,994	\$ 5,356,444
63,957	5,743	0	14,200	398,729	98,896	49,675	547,300
322	23	0	241	7,460	2,258	854	10,572
0	0	0	0	0	0	310,871	310,871
443	141	0	691	7,833	1,704	0	9,537
<u>205,324</u>	<u>14,855</u>	<u>0</u>	<u>137,351</u>	<u>4,020,494</u>	<u>1,141,836</u>	<u>1,072,394</u>	<u>6,234,724</u>
0	0	0	0	8,309	40,000	0	48,309
5,953,087	570,711	813,576	2,400,698	35,178,783	3,441,769	1,479,247	40,099,799
<u>(1,180,006)</u>	<u>(285,027)</u>	<u>(315,260)</u>	<u>(1,000,002)</u>	<u>(12,026,582)</u>	<u>(1,331,191)</u>	<u>(893,113)</u>	<u>(14,250,886)</u>
<u>4,773,081</u>	<u>285,684</u>	<u>498,316</u>	<u>1,400,696</u>	<u>23,152,201</u>	<u>2,110,578</u>	<u>586,134</u>	<u>25,848,913</u>
<u>4,978,405</u>	<u>300,539</u>	<u>498,316</u>	<u>1,538,047</u>	<u>27,181,004</u>	<u>3,292,414</u>	<u>1,658,528</u>	<u>32,131,946</u>
245,000	0	53,376	3,237	811,948	47,725	0	859,673
23,301	8,609	0	16,154	262,574	152,683	88,179	503,436
700	32	0	211	4,070	491	22,119	26,680
32,439	0	3,267	189	88,439	2,822	0	91,261
0	7,280	0	0	15,589	0	19,957	35,546
1,093	733	0	1,318	22,167	4,676	81	26,924
<u>302,533</u>	<u>16,654</u>	<u>56,643</u>	<u>21,109</u>	<u>1,204,787</u>	<u>208,397</u>	<u>130,336</u>	<u>1,543,520</u>
6,197	4,152	0	7,468	125,618	26,496	459	152,573
3,718,000	0	106,752	3,885	7,495,245	57,396	0	7,552,641
<u>3,724,197</u>	<u>4,152</u>	<u>106,752</u>	<u>11,353</u>	<u>7,620,863</u>	<u>83,892</u>	<u>459</u>	<u>7,705,214</u>
<u>4,026,730</u>	<u>20,806</u>	<u>163,395</u>	<u>32,462</u>	<u>8,825,650</u>	<u>292,289</u>	<u>130,795</u>	<u>9,248,734</u>
777,642	285,684	334,921	1,393,385	14,756,569	2,002,635	586,134	17,345,338
0	0	0	0	22,000	40,000	0	62,000
<u>174,033</u>	<u>(5,951)</u>	<u>0</u>	<u>112,200</u>	<u>3,576,785</u>	<u>957,490</u>	<u>941,599</u>	<u>5,475,874</u>
<u>\$ 951,675</u>	<u>\$ 279,733</u>	<u>\$ 334,921</u>	<u>\$ 1,505,585</u>	<u>\$ 18,355,354</u>	<u>\$ 3,000,125</u>	<u>\$ 1,527,733</u>	<u>\$ 22,883,212</u>

**Board of County Road Commissioners**  
**County of Bay**  
**Department of Water and Sewer**  
**Water Enterprise Funds**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**For the Year Ended December 31, 2004**

	Bangor Township	Kawkawlin - Fraser	Beaver Township	Beaver Road	Monitor Township	Williams Township
Gross service charges	\$ 1,608,298	\$ 791,901	\$ 75,804	\$ 96,182	\$ 595,343	\$ 498,320
Water costs	844,778	424,424	39,342	65,554	293,120	250,373
Gross profit	763,520	367,477	36,462	30,628	302,223	247,947
Operating revenues:						
Service connections	29,730	28,340	7,470	4,540	31,710	28,855
Charges, fees, etc.	3,093	3,695	362	80	3,408	5,565
Total operating revenues	32,823	32,035	7,832	4,620	35,118	34,420
Operating expenses:						
Personal services	242,203	96,583	22,063	32,566	132,473	117,653
Utilities	5,121	1,486	230	0	1,778	11,267
Operation and maintenance	58,611	126,274	5,251	1,902	30,350	27,914
Administration	50,601	18,549	2,974	7,221	22,370	18,119
Fiscal and other charges	27,714	6,743	1,545	0	9,385	9,194
Capital outlay	0	0	0	0	0	0
Depreciation	130,179	194,733	52,286	0	104,649	107,866
Total operating expenses	514,429	444,368	84,349	41,689	301,005	292,013
Operating income (loss)	281,914	(44,856)	(40,055)	(6,441)	36,336	(9,646)
Nonoperating revenues (expenses):						
Other net revenue	0	0	0	0	0	0
Interest income	15,059	5,665	464	127	8,375	7,087
Interest expense	(18,469)	(104,825)	(40,378)	0	(13,950)	(56,058)
Payment by local unit	0	208,195	131,500	35,552	0	70,838
Payment to local unit	0	0	0	0	(21,044)	0
Operating transfers in (out)	(2,281)	(475)	0	0	0	0
Change in net assets	276,223	63,704	51,531	29,238	9,717	12,221
Net assets - beginning of year	4,247,930	4,465,483	1,087,772	0	2,981,829	2,057,792
Net assets - end of year	\$ 4,524,153	\$ 4,529,187	\$ 1,139,303	\$ 29,238	\$ 2,991,546	\$ 2,070,013

See accompanying notes to financial statements

<u>Merritt - Portsmouth</u>	<u>Pinconning Township</u>	<u>City of Pinconning</u>	<u>Frankenlust Township</u>	<u>Subtotal</u>	<u>Water Supply System #1</u>	<u>Bay County Water System</u>	<u>Combined Total</u>
\$ 251,796	\$ 129,049	\$ 0	\$ 289,326	\$ 4,336,019	\$ 1,117,097	\$ 0	\$ 5,453,116
83,622	48,311	0	138,909	2,188,433	606,857	0	2,795,290
168,174	80,738	0	150,417	2,147,586	510,240	0	2,657,826
27,265	12,905	0	19,235	190,050	20,290	0	210,340
2,119	5,279	0	2,250	25,851	12,483	110,543	148,877
29,384	18,184	0	21,485	215,901	32,773	110,543	359,217
64,197	35,611	0	75,280	818,629	185,271	0	1,003,900
2,628	360	0	1,251	24,121	5,900	0	30,021
16,800	3,760	0	20,907	291,769	41,552	0	333,321
8,137	3,647	0	44,006	175,624	40,113	869	216,606
3,390	1,497	199	6,796	66,463	22,628	0	89,091
0	0	0	0	0	0	0	0
143,006	11,557	20,339	53,280	817,895	82,436	105,367	1,005,698
238,158	56,432	20,538	201,520	2,194,501	377,900	106,236	2,678,637
(40,600)	42,490	(20,538)	(29,618)	168,986	165,113	4,307	338,406
0	0	0	0	0	0	47,303	47,303
1,985	104	0	1,203	40,069	12,133	7,685	59,887
(197,684)	0	(8,563)	(708)	(440,635)	(13,553)	0	(454,188)
364,871	0	63,050	0	874,006	0	0	874,006
(3,259)	(32,680)	0	0	(56,983)	0	0	(56,983)
0	0	0	0	(2,756)	488	2,268	0
125,313	9,914	33,949	(29,123)	582,687	164,181	61,563	808,431
826,362	269,819	300,972	1,534,708	17,772,667	2,835,944	1,466,170	22,074,781
\$ 951,675	\$ 279,733	\$ 334,921	\$ 1,505,585	\$ 18,355,354	\$ 3,000,125	\$ 1,527,733	\$ 22,883,212

**Board of County Road Commissioners**  
**County of Bay**  
**Department of Water and Sewer**  
**Water Enterprise Funds**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2004**

	Bangor Township	Kawkawlin - Fraser	Beaver Township	Beaver Road	Monitor Township	Williams Township
Cash flows from operating activities:						
Cash received from customers	\$ 1,610,461	\$ 849,223	\$ 75,517	\$ 64,731	\$ 604,373	\$ 504,429
Cash payments to suppliers for goods and services	(992,852)	(622,961)	(49,573)	(52,949)	(403,466)	(315,937)
Cash payments to employees for services	(241,684)	(97,103)	(22,091)	(32,545)	(132,074)	(117,858)
Other operating income	32,823	32,035	7,832	4,620	35,118	34,420
Net cash provided (used) by operating activities	408,748	161,194	11,685	(16,143)	103,951	105,054
Cash flows from capital and related financing activities:						
Advances (payments) from (to) other funds	(2,281)	(475)	0	0	0	0
Principal paid on long-term debt	(109,886)	(136,624)	(100,000)	0	(51,000)	(92,720)
Interest paid on long-term debt	(19,117)	(106,851)	(41,200)	0	(15,300)	(57,104)
Payments from (to) local units	0	208,195	131,500	35,552	(21,044)	70,838
Acquisition and construction of capital assets	(14,326)	(122,834)	0	0	(2,263)	(4,357)
Net cash provided (used) by capital and related financing activities	(145,610)	(158,589)	(9,700)	35,552	(89,607)	(83,343)
Cash flows from investing activities:						
Interest and investment earnings	12,797	5,003	353	86	7,411	6,259
Net increase (decrease) in cash and cash equivalents	275,935	7,608	2,338	19,495	21,755	27,970
Cash and cash equivalents, beginning of year	1,207,527	485,029	16,684	0	673,387	605,284
Cash and cash equivalents, end of year	\$ 1,483,462	\$ 492,637	\$ 19,022	\$ 19,495	\$ 695,142	\$ 633,254

See accompanying notes to financial statements

<u>Merritt - Portsmouth</u>	<u>Pinconning Township</u>	<u>City of Pinconning</u>	<u>Frankenlust Township</u>	<u>Subtotal</u>	<u>Water Supply System #1</u>	<u>Bay County Water Supply</u>	<u>Combined Total</u>
\$ 248,788	\$ 109,079	\$ 0	\$ 286,290	\$ 4,352,891	\$ 1,127,575	\$ 16,310	\$ 5,496,776
(112,942)	(57,593)	(199)	(208,948)	(2,817,420)	(617,701)	(112,627)	(3,547,748)
(63,883)	(35,820)	0	(75,341)	(818,399)	(185,883)	(20,340)	(1,024,622)
29,384	18,184		21,485	215,901	32,773	110,543	359,217
101,347	33,850	(199)	23,486	932,973	356,764	(6,114)	1,283,623
0	0	0	0	(2,756)	(62,204)	2,268	(62,692)
(245,000)	0	(53,376)	(2,590)	(791,196)	(50,052)	0	(841,248)
(199,697)	0	(9,475)	(777)	(449,521)	(16,482)	0	(466,003)
361,612	(32,680)	63,050		817,023	0	47,303	864,326
(2,194)	0	0	0	(145,974)	(39,357)	(44,535)	(229,866)
(85,279)	(32,680)	199	(3,367)	(572,424)	(168,095)	5,036	(735,483)
1,745	81	0	1,032	34,767	10,587	7,468	52,822
17,813	1,251	0	21,151	395,316	199,256	6,390	600,962
122,789	7,697	0	101,068	3,219,465	879,722	704,604	4,803,791
\$ 140,602	\$ 8,948	\$ 0	\$ 122,219	\$ 3,614,781	\$ 1,078,978	\$ 710,994	\$ 5,404,753

**Board of County Road Commissioners**  
**County of Bay**  
**Department of Water and Sewer**  
**Sewer Enterprise Funds**  
**Statement of Net Assets**  
**December 31, 2004**

	<u>City of Auburn</u>	<u>Bangor Township</u>	<u>Frankenlust Township</u>	<u>Kawkawlin Township</u>	<u>Monitor Township</u>
<b>Assets</b>					
Current assets:					
Cash and investments	\$ (12,228)	\$ 1,193,841	\$ 155,918	\$ 518,613	\$ 702,167
Accounts receivable	33,671	107,383	25,175	19,545	110,357
Interest receivable	13	2,288	340	513	1,591
Inventory - at cost	0	0	0	0	0
Special assessments	0	0	198,434	0	0
Prepaid expenses	0	0	0	0	0
Total current assets	<u>21,456</u>	<u>1,303,512</u>	<u>379,867</u>	<u>538,671</u>	<u>814,115</u>
Capital assets - at cost	159,480	17,768,745	4,465,300	3,997,043	13,219,303
Less allowance for depreciation	(72,179)	(7,881,135)	(1,536,830)	(1,254,909)	(6,287,934)
Net capital assets	<u>87,301</u>	<u>9,887,610</u>	<u>2,928,470</u>	<u>2,742,134</u>	<u>6,931,369</u>
Total assets	<u>108,757</u>	<u>11,191,122</u>	<u>3,308,337</u>	<u>3,280,805</u>	<u>7,745,484</u>
<b>Liabilities</b>					
Current liabilities:					
Bonds payable	25,875	600,555	110,940	71,030	469,290
Accounts payable	0	2,874	34,987	25,841	0
Accrued payroll	0	0	0	0	0
Accrued interest payable	1,143	26,536	4,902	3,856	20,736
Deferred revenue and advances	0	0	198,434	0	0
Compensated absences	0	0	0	0	0
Total current liabilities	<u>27,018</u>	<u>629,965</u>	<u>349,263</u>	<u>100,727</u>	<u>490,026</u>
Long-term liabilities:					
Compensated absences	0	0	0	0	0
Bonds payable	82,800	1,921,776	355,008	210,496	1,501,728
Total long-term liabilities	<u>82,800</u>	<u>1,921,776</u>	<u>355,008</u>	<u>210,496</u>	<u>1,501,728</u>
Total liabilities	<u>109,818</u>	<u>2,551,741</u>	<u>704,271</u>	<u>311,223</u>	<u>1,991,754</u>
<b>Net Assets</b>					
Investment in capital assets - net of related debt	(22,517)	7,338,743	2,457,620	2,456,752	4,939,615
Restricted	0	0	0	0	0
Unrestricted	<u>21,456</u>	<u>1,300,638</u>	<u>146,446</u>	<u>512,830</u>	<u>814,115</u>
Total net assets	<u>\$ (1,061)</u>	<u>\$ 8,639,381</u>	<u>\$ 2,604,066</u>	<u>\$ 2,969,582</u>	<u>\$ 5,753,730</u>

See accompanying notes to financial statements

<u>Williams Township</u>	<u>Portsmouth Township</u>	<u>City of Essexville</u>	<u>Subtotal</u>	<u>WWTP</u>	<u>Combined Total</u>
\$ 531,978	\$ 68,429	\$ 0	\$ 3,158,718	\$ 1,223,447	\$ 4,382,165
56,262	138,316	0	490,709	26,469	517,178
876	158	0	5,779	1,735	7,514
0	0	0	0	20,325	20,325
0	624,535	0	822,969	0	822,969
0	232	0	232	20,762	20,994
589,116	831,670	0	4,478,407	1,292,738	5,771,145
5,561,478	7,683,116	0	52,854,465	37,528,642	90,383,107
(2,436,675)	(1,994,992)	0	(21,464,654)	(20,830,150)	(42,294,804)
3,124,803	5,688,124	0	31,389,811	16,698,492	48,088,303
3,713,919	6,519,794	0	35,868,218	17,991,230	53,859,448
236,310	390,000	95,000	1,999,000	0	1,999,000
0	63,427	0	127,129	124,991	252,120
0	87	0	87	20,652	20,739
10,442	16,579	7,825	92,019	0	92,019
0	624,535	0	822,969	0	822,969
0	463	0	463	46,729	47,192
246,752	1,095,091	102,825	3,041,667	192,372	3,234,039
0	2,622	0	2,622	264,798	267,420
756,192	2,935,000	1,300,000	9,063,000	0	9,063,000
756,192	2,937,622	1,300,000	9,065,622	264,798	9,330,420
1,002,944	4,032,713	1,402,825	12,107,289	457,170	12,564,459
2,121,859	2,346,545	(1,402,825)	20,235,792	16,698,492	36,934,284
0	0	0	0	361,996	361,996
589,116	140,536	0	3,525,137	473,572	3,998,709
<u>\$ 2,710,975</u>	<u>\$ 2,487,081</u>	<u>\$ (1,402,825)</u>	<u>\$ 23,760,929</u>	<u>\$ 17,534,060</u>	<u>\$ 41,294,989</u>



**Board of County Road Commissioners**  
**County of Bay**  
**Department of Water and Sewer**  
**Sewer Enterprise Funds**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**For the Year Ended December 31, 2004**

	City of Auburn	Bangor Township	Frankenlust Township	Kawkawlin Township	Monitor Township
Gross service charges	\$ 132,979	\$ 1,535,730	\$ 413,321	\$ 195,526	\$ 593,232
Sewer treatment costs	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Gross profit	<u>132,979</u>	<u>1,535,730</u>	<u>413,321</u>	<u>195,526</u>	<u>593,232</u>
Operating revenues:					
Service connections	0	0	59,296	169,575	0
Charges, fees, etc.	<u>0</u>	<u>1,150</u>	<u>2,450</u>	<u>2,225</u>	<u>2,700</u>
Total operating revenues	<u>0</u>	<u>1,150</u>	<u>61,746</u>	<u>171,800</u>	<u>2,700</u>
Operating expenses:					
Personal services	0	0	0	0	0
Utilities	0	0	0	0	0
Regional charges	129,378	813,847	123,322	63,068	402,538
Chemicals	0	0	0	0	0
Operation and maintenance	0	0	0	0	0
Local operation and maintenance expenses	3,597	215,760	42,943	79,782	118,573
Administration	0	0	0	0	3,425
Fiscal and other charges	98	5,536	970	456	3,042
Depreciation	<u>3,341</u>	<u>353,892</u>	<u>102,453</u>	<u>90,724</u>	<u>254,178</u>
Total operating expenses	<u>136,414</u>	<u>1,389,035</u>	<u>269,688</u>	<u>234,030</u>	<u>781,756</u>
Operating income (loss)	(3,435)	147,845	205,379	133,296	(185,824)
Nonoperating revenues (expenses):					
Interest income	52	16,636	2,171	6,032	9,664
Interest expense	(6,545)	(151,928)	(28,066)	(17,032)	(118,721)
Payments by local units	49,973	301,902	0	0	475,108
Payments to local units	<u>0</u>	<u>0</u>	<u>(177,337)</u>	<u>0</u>	<u>0</u>
Change in net assets	40,045	314,455	2,147	122,296	180,227
Net assets - beginning of year	<u>(41,106)</u>	<u>8,324,926</u>	<u>2,601,919</u>	<u>2,847,286</u>	<u>5,573,503</u>
Net assets - end of year	<u>\$ (1,061)</u>	<u>\$ 8,639,381</u>	<u>\$ 2,604,066</u>	<u>\$ 2,969,582</u>	<u>\$ 5,753,730</u>

See accompanying notes to financial statements

Williams Township	Portsmouth Township	City of Essexville	Subtotal	WWTP	Combined Total
\$ 335,555	\$ 483,637	\$ 0	\$ 3,689,980	\$ 1,632,166	\$ 5,322,146
0	210,899	0	210,899	0	210,899
335,555	272,738	0	3,479,081	1,632,166	5,111,247
0	0	0	228,871	0	228,871
950	350	0	9,825	684,135	693,960
950	350	0	238,696	684,135	922,831
0	24,607	0	24,607	1,285,249	1,309,856
0	2,980	0	2,980	231,667	234,647
100,013	0	0	1,632,166	0	1,632,166
0	0	0	0	70,113	70,113
0	3,200	0	3,200	255,376	258,576
50,059	0	0	510,714	510,714	1,021,428
0	5,896	0	9,321	148,905	158,226
942	495	0	11,539	9,876	21,415
112,967	192,259	0	1,109,814	690,018	1,799,832
263,981	229,437	0	3,304,341	3,201,918	6,506,259
72,524	43,651	0	413,436	(885,617)	(472,181)
6,533	1,273	0	42,361	13,792	56,153
(59,782)	(72,205)	(32,908)	(487,187)	0	(487,187)
111,467	231,050	123,413	1,292,913	0	1,292,913
0	0	0	(177,337)	0	(177,337)
130,742	203,769	90,505	1,084,186	(871,825)	212,361
2,580,233	2,283,312	(1,493,330)	22,676,743	18,405,885	41,082,628
<u>\$ 2,710,975</u>	<u>\$ 2,487,081</u>	<u>\$ (1,402,825)</u>	<u>\$ 23,760,929</u>	<u>\$ 17,534,060</u>	<u>\$ 41,294,989</u>

**Board of County Road Commissioners**  
**County of Bay**  
**Department of Water and Sewer**  
**Sewer Enterprise Funds**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2004**

	City of Auburn	Bangor Township	Frankenlust Township	Kawkawlin Township
Cash flows from operating activities:				
Cash received from customers	\$ 132,708	\$ 1,548,729	\$ 401,218	\$ 194,521
Cash payments to suppliers for goods and services	(133,073)	(1,032,269)	(208,270)	(117,465)
Cash payments to employees for services	0	0	0	0
Other operating income	0	1,150	61,746	171,800
Net cash provided (used) by operating activities	(365)	517,610	254,694	248,856
Cash flows from capital and related financing activities:				
Advances (payments) from (to) other funds	0	0	0	0
Principal paid on long-term debt	(25,875)	(600,555)	(110,940)	(71,030)
Interest paid on long-term debt	(6,818)	(158,246)	(29,233)	(18,077)
Proceeds from long-term debt	0	0	0	0
Payments from (to) local units	49,973	301,902	(177,337)	0
Acquisition and construction of capital assets	0	(154,147)	(20,500)	(108,799)
Net cash provided (used) by capital and related financing activities	17,280	(611,046)	(338,010)	(197,906)
Cash flows from investing activities:				
Interest and investment earnings	13	15,202	2,037	5,710
Net increase (decrease) in cash and cash equivalents	16,928	(78,234)	(81,279)	56,660
Cash and cash equivalents, beginning of year	(29,156)	1,272,075	237,197	461,953
Cash and cash equivalents, end of year	\$ (12,228)	\$ 1,193,841	\$ 155,918	\$ 518,613

See accompanying notes to financial statements

<u>Monitor Township</u>	<u>Williams Township</u>	<u>Portsmouth Township</u>	<u>City of Essexville</u>	<u>Subtotal</u>	<u>WWTP</u>	<u>Combined Total</u>
\$ 602,337	\$ 333,927	\$ 477,843	\$ 0	\$ 3,691,283	\$ 1,625,174	\$ 5,316,457
(527,578)	(151,014)	(218,117)	0	(2,387,786)	(1,201,393)	(3,589,179)
0	0	(24,647)	0	(24,647)	(1,283,954)	(1,308,601)
<u>2,700</u>	<u>950</u>	<u>350</u>	<u>0</u>	<u>238,696</u>	<u>684,135</u>	<u>922,831</u>
<u>77,459</u>	<u>183,863</u>	<u>235,429</u>	<u>0</u>	<u>1,517,546</u>	<u>(176,038)</u>	<u>1,341,508</u>
0	0	0	0	0	62,692	62,692
(469,290)	(236,310)	(380,000)	(90,000)	(1,984,000)	0	(1,984,000)
(123,658)	(62,268)	(74,100)	(33,413)	(505,813)	0	(505,813)
0	0	0	0	0	0	0
475,108	111,467	231,050	123,413	1,115,576	0	1,115,576
<u>(31,904)</u>	<u>(15,129)</u>	<u>(3,583)</u>	<u>0</u>	<u>(334,062)</u>	<u>(112,494)</u>	<u>(446,556)</u>
<u>(149,744)</u>	<u>(202,240)</u>	<u>(226,633)</u>	<u>0</u>	<u>(1,708,299)</u>	<u>(49,802)</u>	<u>(1,758,101)</u>
<u>8,702</u>	<u>6,033</u>	<u>1,161</u>	<u>0</u>	<u>38,858</u>	<u>12,941</u>	<u>51,799</u>
(63,583)	(12,344)	9,957	0	(151,895)	(212,899)	(364,794)
<u>765,750</u>	<u>544,322</u>	<u>58,472</u>	<u>0</u>	<u>3,310,613</u>	<u>1,436,346</u>	<u>4,746,959</u>
<u>\$ 702,167</u>	<u>\$ 531,978</u>	<u>\$ 68,429</u>	<u>\$ 0</u>	<u>\$ 3,158,718</u>	<u>\$ 1,223,447</u>	<u>\$ 4,382,165</u>

**Board of County Road Commissioners  
County of Bay  
Department of Water and Sewer  
Water and Sewer Enterprise Funds  
Notes to Financial Statements  
December 31, 2004**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Department of Water and Sewer (DWS) conform to U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Department of Water and Sewer.

**Reporting Entity**

The Department of Water and Sewer was organized in 1975 and is located in Bay County, Michigan. The Department provides water and sewer services to approximately 18,170 customers as authorized by Monitor, Bangor, Frankenlust, Portsmouth, Williams, Beaver, Merritt, Pinconning, Kawkawlin and Fraser Townships, City of Auburn, Beaver Road Water Association and Bay County.

The County of Bay is governed by Public Act 139 of the State of Michigan, known as the "Unified County Government Act." While Public Act 139 allows a department of public works to remain within a unified county government, it does not provide the department with bonding powers. In order to secure these bonding powers, the County of Bay Department of Water and Sewer was reorganized under Act 342 which transferred control of the Department to the Bay County Board of County Road Commissioners. Accordingly, the County of Bay Department of Water and Sewer is treated as a component unit of the Bay County Road Commission.

The Department is governed by an elected Board of the Bay County Road Commission. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Department's reporting entity, and which organizations are legally separate component units of the Department. The Department has no component units.

A primary focus of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34) is on the ownership of capital assets and the legal obligation to repay any related debt.

The DWS operations include water and sewer lines that were constructed and financed under varying scenarios. While certain debt issues may be the general obligation of Bay County, in most cases a local unit is primarily responsible for the repayment of the debt. The local units have the sole authority to set rates and are financially responsible for the integrity of their systems. Under certain circumstances, the local units have the right to operate their system.

**Board of County Road Commissioners  
County of Bay  
Department of Water and Sewer  
Water and Sewer Enterprise Funds  
Notes to Financial Statements  
December 31, 2004**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Management has determined that the DWS is acting in a fiduciary capacity for the local units and ownership of the capital assets and related debt resides with them.

These financial statements include the financial position and results of operations of the water and sewer systems of various local units that are managed by the DWS and its enterprise funds. These statements represent the Enterprise Fund of each individual local unit and the DWS.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relate to charges to customers for water and sewer services. The water and sewer funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

**Assets, Liabilities, and Net Assets or Equity**

Bank Deposits and Investments— Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables— In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the fiduciary activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

All trade receivables are shown as net of allowance for uncollectible amounts. The allowance for uncollectible amounts for Water Enterprise Funds are \$1,000 for Bangor Township, \$1,000 for Water Supply System #1 and \$6,000 for Bay County Water System.

Inventories and Prepaid Items— Inventories are valued at cost, on a first-in, first-out basis. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets— The revenue bonds of the enterprise funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

Capital Assets— Capital assets, which include property, plant, and equipment are reported in the applicable business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$2,500 and any assets susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, \$0 of interest expense was capitalized as part of the cost of assets under construction.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 50 years
Building Improvements	7 to 30 years
Water and Sewer Lines	40 to 50 years
Vehicles	5 to 7 years
Other Equipment	5 to 10 years
Computer Equipment	5 to 7 years

Compensated Absences - The liability for compensated absences reported in the proprietary fund financial statements consists of unpaid, accumulated sick, vacation pay, and longevity pay benefits. The liability has been calculated using the vesting method, in which the obligation for employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-Term Obligations – In the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

General Obligation Bonds – The Sewage Disposal and Water System General Obligation Bonds are backed by the limited tax, full faith and credit of the County. Debt service requirements are funded by various local government contributions, investment earnings and user and maintenance charges.

Deferred Revenue – Deferred revenue represents amounts which are measurable but not available. Deferred revenue consists mainly of special assessments receivable for connection fees collected in advance.

Contributed Capital – The DWS has received federal and state grants to pay a portion of the construction costs of the wastewater treatment facility and transmission and distribution system assets. The DWS also receives contributions from local districts to finance construction of transmission and distribution system assets and future repairs by the DWS.

Use of Estimates – The process of preparing the basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**NOTE 2 – DEPOSITS AND INVESTMENTS**

The DWS maintains a cash and investment pool account that is available for use by all funds. Each fund's portion of this pool account is accounted for separately and included in "cash and investments" on the statement of net assets. Interest income is allocated to each local unit.

The Department of Water and Sewer has not adopted an official investment policy of its own and, therefore, utilizes the County of Bay's policy. The policy authorizes the DWS to make deposits in the accounts of federally insured banks, credit unions, and saving and loan associations that have offices in Michigan. The DWS is also allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The DWS's deposits are in accordance with statutory authority.

The DWS's deposits and investments were reported in the basic financial statements as follows:

Water Enterprise Funds	\$ 5,404,753
Sewer Enterprise Funds	4,382,165
Total	<u>\$ 9,786,918</u>

At December 31, 2004, the book value of the DWS's demand deposits consisting of checking, savings, and certificates of deposits was \$9,786,918 with a corresponding bank balance of \$9,819,417. The amount of deposits covered by federal depository insurance cannot be determined since other County deposits would need to be considered.



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**NOTE 3 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

A summary of interfund receivable and payable balances at December 31, 2004 and transfers made during the year ended December 31, 2004 is as follows:

<u>Fund</u>	<u>Receivables</u>	<u>Payables</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Water	\$ 0	\$ 0	\$ 5,092	\$ 5,092
Sewer	0	0	0	0
	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,092</u>	<u>\$ 5,092</u>

Transfers are used for the construction and purchase of capital assets and for water studies.

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**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the Enterprise Funds for the current year was as follows:

**WATER ENTERPRISE FUNDS**  
**Capital Assets Not Being Depreciated:**

	Bangor Township	Kawkawlin- Fraser	Beaver Township	Monitor Township	Williams Township	Merritt - Portsmouth	Pinconning Township	City of Pinconning	Frankenlust Township	Water Supply System #1	Bay County Water System	Total
Land												
Beginning	\$ 0	\$ 0	\$ 0	\$ 8,787	\$ 1,232	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 12,037	\$ 22,056
Increases / (Decreases)	0	0	0	0	0	0	0	0	0	0	0	0
Ending	0	0	0	8,787	1,232	0	0	0	0	0	12,037	22,056
Construction in progress												
Beginning	47,705	0	0	0	0	0	0	0	0	64,685	0	112,390
Increases / (Decreases)	(34,067)	118,447	0	0	0	0	0	0	0	(61,985)	0	22,395
Ending	13,638	118,447	0	0	0	0	0	0	0	2,700	0	134,785
Subtotal	13,638	118,447	0	8,787	1,232	0	0	0	0	2,700	12,037	156,841

**Capital Assets Being Depreciated:**  
**Building, improvements, machinery and  
equipment**

Beginning	0	0	0	0	0	0	0	0	0	0	1,432,936	1,436,395
Increases / (Decreases)	0	0	0	0	0	0	0	0	0	0	34,274	34,274
Ending	0	0	0	0	0	0	0	0	0	0	1,467,210	1,470,669
Water System												
Beginning	5,586,835	8,607,468	2,091,432	4,577,928	4,375,544	5,950,893	570,711	813,576	2,400,698	3,334,268	0	38,309,353
Increases / (Decreases)	48,393	4,387	0	2,263	4,357	2,194	0	0	0	101,342	0	162,936
Ending	5,635,228	8,611,855	2,091,432	4,580,191	4,379,901	5,953,087	570,711	813,576	2,400,698	3,435,610	0	38,472,289
Subtotal	5,635,228	8,611,855	2,091,432	4,580,191	4,379,901	5,953,087	570,711	813,576	2,400,698	3,439,069	1,467,210	39,942,958
Less Accumulated Depreciation:												
Beginning	2,137,950	2,359,072	215,607	2,070,116	1,873,829	1,037,000	273,470	294,921	946,722	1,248,755	798,007	13,255,449
Increases / (Decreases)	130,179	194,733	52,286	104,649	107,866	143,006	11,557	20,339	53,280	82,436	95,106	995,437
Ending	2,268,129	2,553,805	267,893	2,174,765	1,981,695	1,180,006	285,027	315,260	1,000,002	1,331,191	893,113	14,250,886
Net Capital Assets Being Depreciated	3,367,099	6,058,050	1,823,539	2,405,426	2,398,206	4,773,081	285,684	498,316	1,400,696	2,107,878	574,097	25,692,072
Net Capital Assets	\$ 3,380,737	\$ 6,176,497	\$ 1,823,539	\$ 2,414,213	\$ 2,399,438	\$ 4,773,081	\$ 285,684	\$ 498,316	\$ 1,400,696	\$ 2,110,578	\$ 586,134	\$ 25,848,913

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**NOTE 4 - CAPITAL ASSETS (CONTINUED)**

<b>SEWER ENTERPRISE FUNDS</b>										
<b>Capital Assets Not Being Depreciated:</b>										
Land	City of Auburn	Bangor Township	Frankenlust Township	Kawkawlin Township	Monitor Township	Williams Township	Portsmouth Township	City of Essexville	WWTP	Total
Beginning	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 50,754	\$ 50,754
Increases / (Decreases)	0	0	0	0	0	0	0	0	0	0
Ending	0	0	0	0	0	0	0	0	50,754	50,754
Construction in progress										
Beginning	0	0	0	0	0	0	0	0	0	0
Increases / (Decreases)	0	143,507	0	96,865	0	0	0	0	0	240,372
Ending	0	143,507	0	96,865	0	0	0	0	0	240,372
Subtotal	0	143,507	0	96,865	0	0	0	0	50,754	291,126
<b>Capital Assets Being Depreciated:</b>										
<b>Building, improvements, machinery and equipment</b>										
Beginning	0	0	0	0	0	0	0	0	20,206,920	20,206,920
Increases / (Decreases)	0	0	0	0	0	0	0	0	101,200	101,200
Ending	0	0	0	0	0	0	0	0	20,308,120	20,308,120
Sewer System										
Beginning	159,480	17,614,598	4,444,800	3,888,244	13,187,399	5,546,349	7,679,533	0	17,169,768	69,690,171
Increases / (Decreases)	0	10,640	20,500	11,934	31,904	15,129	3,583	0	0	93,690
Ending	159,480	17,625,238	4,465,300	3,900,178	13,219,303	5,561,478	7,683,116	0	17,169,768	69,783,861
Subtotal	159,480	17,625,238	4,465,300	3,900,178	13,219,303	5,561,478	7,683,116	0	37,477,888	90,091,981
<b>Less Accumulated Depreciation:</b>										
Beginning	68,838	7,527,243	1,434,377	1,164,185	6,033,756	2,323,708	1,802,733	0	20,151,426	40,506,266
Increases / (Decreases)	3,341	353,892	102,453	90,724	254,178	112,967	192,259	0	678,724	1,788,538
Ending	72,179	7,881,135	1,536,830	1,254,909	6,287,934	2,436,675	1,994,992	0	20,830,150	42,294,804
Net Capital Assets Being Depreciated	87,301	9,744,103	2,928,470	2,645,269	6,931,369	3,124,803	5,688,124	0	16,647,738	47,797,177
Net Capital Assets	\$ 87,301	\$ 9,887,610	\$ 2,928,470	\$ 2,742,134	\$ 6,931,369	\$ 3,124,803	\$ 5,688,124	\$ 0	\$ 16,698,492	\$ 48,088,303

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**NOTE 5 - LONG-TERM DEBT**

<u>Water Enterprise Funds</u>	<u>Beginning</u>	<u>Increases\ (Decreases)</u>	<u>Ending</u>
Portsmouth Extension Revenue Bonds, dated October 1, 1974, due in annual installments through October 1, 2004, bearing interest at 7.875%.	\$ 12,000	\$ (12,000)	\$ 0
Bay County Water Supply System 1987 Series General Obligation Bonds, dated February 1, 1987, due in annual installments through September 1, 2006, bearing interest at 8%, net of unamortized discount of \$1,277. This debt is being repaid 51% by Monitor, 7.72% by Williams, 2.59 % by Frankenlust and 38.69% by Water Supply System.	373,085	(99,362)	273,723
Bay County Water Supply System (Beaver Extension) General Obligation Bonds, dated November 1, 1999, due in annual installments through November 1, 2011, bearing interest rates of 5.0% to 5.4%.	800,000	(100,000)	700,000
1998 Merritt-Portsmouth Townships Water Extension General Obligation Bonds, dated July 1, 1998, due in annual installments through May 1, 2018, bearing interest rates of 4.7% to 4.75%.	2,040,000	(125,000)	1,915,000
2000 Merritt Township Water Extension General Obligation Bonds, dated September 1, 2000, due in annual installments through November 1, 2020, bearing interest rates of 4.85% to 5.25%.	1,855,000	(100,000)	1,755,000
Kawkawlin-Fraser Water Extension General Obligation Bonds, dated July 1, 1998, due in annual installments through July 1, 2018, bearing interest rate of 5%.	1,145,000	(70,000)	1,075,000
Bay County Water Supply System (County Service Area) 1990 Series General Obligation Bonds, dated February 1, 1990, due in annual installments through May 1, 2009, bearing interest rates of 7.2% to 7.3%.	300,000	(50,000)	250,000

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**NOTE 5 - LONG TERM DEBT (CONTINUED)**

	<u>Beginning</u>	<u>Increases\ (Decreases)</u>	<u>Ending</u>
Bay County Water Supply System (City of Pinconning Extension) 1996 Refunding General Obligation Bonds, dated May 1, 1997, due in annual installments through February 1, 2007, bearing interest rates of 4.8% to 5.2%. This debt is being repaid 33.28% by Kawkawlin-Fraser and 66.72% by City of Pinconning.	\$ 320,000	\$ (80,000)	\$ 240,000
Williams Township Water Extension Bonds, dated August 1, 1977, due in annual installments through May 1, 2017, bearing interest rate of 5%.	520,000	(30,000)	490,000
Bangor Township Water Extension Note, dated May 20, 1997, due in quarterly installments through May 1, 2007, bearing interest rate of 5.25%.	405,477	(109,886)	295,591
Kawkawlin - Fraser Water Extension Bonds, dated October 13, 1982, due in annual installments through July 1, 2022, bearing interest rate of 5%.	980,000	(40,000)	940,000
Merritt - Portsmouth Townships Water Extension Bonds, dated May 19, 1977, due in annual installments through April 1, 2016, bearing interest rate of 5%.	313,000	(20,000)	293,000
Williams Township Water Supply System Extension Revenue Bonds, due in annual installments through January 1, 2020, bearing interest rate of 5%.	190,000	(5,000)	185,000
Total Water Systems Bonds Payable	<u>\$ 9,253,562</u>	<u>\$ (841,248)</u>	<u>\$ 8,412,314</u>

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**NOTE 5 - LONG TERM DEBT (CONTINUED)**

<u>Sewer Enterprise Funds</u>	<u>Beginning</u>	<u>Increases\ (Decreases)</u>	<u>Ending</u>
Bay County Sewage Disposal (Essexville Sewage Disposal System Improvements) General Obligation Bonds, dated March 27, 1997, due in annual installments through October 1, 2017, bearing interest rate of 2.25%.	\$ 1,485,000	\$ (90,000)	\$ 1,395,000
Portsmouth Sewer General Obligation Bonds, dated September 26, 1991 and December 20, 1991, due in annual installments through October 1, 2012, bearing interest rate of 2%	3,705,000	(380,000)	3,325,000
Bay County West Side Regional Sewage Disposal System General Obligation Bonds, dated July 1, 1978, due in annual installments through May 1, 2008, bearing interest rates of 5.5% to 6.5%. This debt is being repaid 1.725% by Auburn, 40.037% by Bangor, 7.396% by Frankenlust, 3.802% by Kawkawlin-Fraser, 31.286% by Monitor and 15.754% by Williams.	7,800,000	(1,500,000)	6,300,000
Kawkawlin Township Sewer Extension Note, dated December 17, 1997, due in annual installments through June 1, 2007, bearing interest rate of 5.45%.	56,000	(14,000)	42,000
Total Sewer Systems Bonds Payable	<u>\$ 13,046,000</u>	<u>\$ (1,984,000)</u>	<u>\$ 11,062,000</u>

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**NOTE 5 – LONG-TERM DEBT (CONTINUED)**

*Compensated Absences*

The Department of Water and Sewer has an employee benefit plan that allows employees to accumulate unused sick days up to a maximum of 120 days. Union employees may either use these sick days when ill or receive payment for 70% of the unused portion at time of retirement. All other employees receive 85% of the unused portion at time employment is terminated. Employees are also allowed to accumulate unused vacation days. Employees can accumulate a maximum of 30 days to carry over at the end of the year. In addition, the DWS provides a longevity payment to all supervisory and administrative employees at time of retirement. The benefit is based on years of employment times one-third of monthly salary, with a maximum payment of six months of salary. The cost of this benefit is recognized when earned. The total liability for compensated absences was \$494,109.

The following is a summary of long-term debt transactions for the Department of Water and Sewer for the year ended December 31, 2004:

	Balance January 1, 2004	Increase	Decrease	Balance December 31, 2004	Amount Due Within One Year
Water Enterprise Funds	\$ 9,253,562	\$ 0	\$ 841,248	\$ 8,412,314	\$ 859,673
Sewer Enterprise Funds	13,046,000	0	1,984,000	11,062,000	1,999,000
Compensated Absences	498,831	0	4,722	494,109	74,116
	<u>\$ 22,798,393</u>	<u>\$ 0</u>	<u>\$ 2,829,970</u>	<u>\$ 19,968,423</u>	<u>\$ 2,932,789</u>

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**NOTE 5 - LONG - TERM DEBT (CONTINUED)**

The annual requirements to amortize bonds outstanding as of December 31, 2004, including interest payments, are as follows:

	Unit	2005	2006	2007	2008	2009	2010-2014	2015-2019	2020-2022	Total
<b>WATER - PRINCIPAL</b>										
1987 Bay County Series	*	\$ 124,362	\$ 149,361	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 273,723
Beaver extension bonds	Beaver	100,000	100,000	100,000	100,000	100,000	200,000	0	0	700,000
1998 Merritt-Portsmouth	Merritt- Portsmouth	125,000	130,000	130,000	130,000	135,000	685,000	580,000	0	1,915,000
2000 Merritt Township	Merritt- Portsmouth	100,000	100,000	105,000	105,000	110,000	550,000	570,000	115,000	1,755,000
1998 Kawkawlin-Fraser	Kawkawlin Fraser	75,000	75,000	75,000	75,000	60,000	345,000	370,000	0	1,075,000
1990 Bay County Series	Williams	50,000	50,000	50,000	50,000	50,000	0	0	0	250,000
1996 Pinconning Refunding	**	80,000	80,000	80,000	0	0	0	0	0	240,000
Williams Township Water	Williams	30,000	30,000	35,000	35,000	40,000	200,000	120,000	0	490,000
Bangor Township Water	Bangor	115,311	121,573	58,707	0	0	0	0	0	295,591
1982 Kawkawlin-Fraser	Kawkawlin Fraser	40,000	45,000	45,000	45,000	45,000	255,000	345,000	120,000	940,000
1977 Merritt-Portsmouth	Merritt- Portsmouth	20,000	22,000	22,000	24,000	26,000	129,000	50,000	0	293,000
Bay County Water System	Williams	0	5,000	5,000	10,000	10,000	55,000	80,000	20,000	185,000
Principal Total		\$ 859,673	\$ 907,934	\$ 705,707	\$ 574,000	\$ 576,000	\$ 2,419,000	\$ 2,115,000	\$ 255,000	\$ 8,412,314

\* Monitor - 51%, Williams - 7.72%, Frankenlust - 2.59% and Water Supply System - 38.69 %  
\*\* Kawkawlin / Fraser - 33.28 % and City of Pinconning 66.72%



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**NOTE 5 - LONG - TERM DEBT (CONTINUED)**

	Unit	2005	2006	2007	2008	2009	2010-2014	2015-2019	2020-2022	Total
<b>WATER - INTEREST</b>										
1987 Bay County Series	*	\$ 22,000	\$ 12,001	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 34,001
Beaver extension bonds	Beaver	36,200	31,200	26,200	21,100	15,900	16,100	0	0	146,700
1998 Merritt-Portsmouth	Merritt-Portsmouth	87,565	81,573	75,463	69,353	63,125	239,671	55,101	0	671,851
2000 Merritt Township	Merritt-Portsmouth	86,257	81,407	76,436	71,344	66,130	249,605	108,545	3,019	742,743
1998 Kawkawlin-Fraser	Kawkawlin-Fraser	50,609	46,971	43,334	39,696	36,423	135,434	37,933	0	390,400
1990 Bay County Series	Williams	16,412	12,775	9,125	5,475	1,825	0	0	0	45,612
1996 Pinconning Refunding	**	10,240	6,200	2,080	0	0	0	0	0	18,520
Williams Township Water	Williams	23,750	22,250	20,625	18,875	17,000	55,000	9,000	0	166,500
Bangor Township Water	Bangor	13,692	7,431	1,262	0	0	0	0	0	22,385
1982 Kawkawlin-Fraser	Kawkawlin-Fraser	47,000	45,000	42,750	40,500	40,500	167,250	102,500	30,000	515,500
1977 Merritt-Portsmouth	Merritt-Portsmouth	14,150	13,100	12,000	10,850	9,600	28,625	2,500	0	90,825
Bay County Water System	Williams	9,375	9,125	8,875	8,500	8,000	32,375	15,500	500	92,250
Interest Total		417,250	369,033	318,150	285,693	258,503	924,060	331,079	33,519	2,937,287
Total Principal and Interest		\$ 1,276,923	\$ 1,276,967	\$ 1,023,857	\$ 859,693	\$ 834,503	\$ 3,343,060	\$ 2,446,079	\$ 288,519	\$ 11,349,601

\* Monitor - 51%, Williams - 7.72%, Frankenlust - 2.59% and Water Supply System - 38.69 %  
\*\* Kawkawlin / Fraser - 33.28 % and City of Pinconning 66.72%

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**NOTE 5 - LONG - TERM DEBT (CONTINUED)**

	Unit	2005	2006	2007	2008	2009	2010-2014	2015-2018	Total
<b><u>SEWER - PRINCIPAL</u></b>									
Essexville Sewage Disposal	City of Essexville	\$ 95,000	\$ 95,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 545,000	\$ 360,000	\$ 1,395,000
Portsmouth Sewer Bonds	Merritt Portsmouth	390,000	395,000	405,000	410,000	415,000	1,310,000	0	3,325,000
West Side Regional Sewer	*	1,500,000	1,600,000	1,600,000	1,600,000	0	0	0	6,300,000
Kawkawlin Sewer Extension	Kawkawlin Fraser	14,000	14,000	14,000	0	0	0	0	42,000
Principal Total		1,999,000	2,104,000	2,119,000	2,110,000	515,000	1,855,000	360,000	11,062,000
<b><u>SEWER - INTEREST</u></b>									
Essexville Sewage Disposal	City of Essexville	31,378	29,240	27,102	24,852	22,602	77,800	16,170	229,144
Portsmouth Sewer Bonds	Merritt Portsmouth	66,500	58,700	50,800	42,700	34,500	49,050	0	302,250
West Side Regional Sewer	*	305,250	220,000	132,000	44,000	0	0	0	701,250
Kawkawlin Sewer Extension	Kawkawlin Fraser	2,289	1,526	763	0	0	0	0	4,578
Interest Total		405,417	309,466	210,665	111,552	57,102	126,850	16,170	1,237,222
Total Principal and Interest		\$2,404,417	\$ 2,413,466	\$2,329,665	\$ 2,221,552	\$ 572,102	\$ 1,981,850	\$ 376,170	\$12,299,222

\* Auburn - 1.725%, Bangor - 40.037%, Frankenlust - 7.396%, Kawkawlin Fraser - 3.802%, Monitor - 31.286% and Williams 15.754%

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**NOTE 6 – RESTRICTED NET ASSETS**

Details of restricted net assets at December 31, 2004 are as follows:

The Bay County West Side Regional Sewage Disposal System has a contractual obligation that requires \$50,000 of net assets of the Sewer Fund be reserved yearly for system replacement. During 2004, the reserve was reduced for system replacement costs of \$846,243 for years ending 1993 to 2004.

\$ 361,996

The revenue bond ordinances for the Water Enterprise Funds require certain reserves for debt retirement be maintained.

62,000

\$ 423,996

**NOTE 7 – RETIREMENT SYSTEM**

**Pension Plan**

Plan Description - Bay County Department of Water and Sewer participates in the Bay County Employees' Retirement System through the County of Bay, a single-employer defined benefit pension plan. The System operates under the authority of County ordinances. The County issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the County of Bay, 515 Center Avenue, Bay City, MI 48708.

Benefits- The plan provides retirement, disability, and death benefits to plan members and beneficiaries. Plan members may retire after reaching the age of 60 with 8 or more years of service. Eligible employees are provided benefits based on 2.25% of their final average compensation times the number of years of credited service. Maximum retirement is 75% of final average compensation, defined as the average of the highest five years.

Funding Policy - The DWS's policy is to fund normal costs which are based on actuarially determined rates, expressed as percentages of annual covered payroll, and which are sufficient to accumulate assets to pay benefits when due. The current rate for the DWS is 0% of annual covered payroll. Plan members were required to contribute at the rate of 4% of their annual salary. Prior to 2002, the DWS had been paying the plan members' contributions. There were no contributions to the plan for 2004.

Annual Pension Cost - For 2004, the DWS's annual pension cost of \$0 was equal to its required and actual contribution. The required contribution was determined as part of the December 31, 2003 actuarial evaluation, using the entry age normal cost method. The actuarial assumptions included (a) 7.5% rate of return and (b) projected salary increases of 5.0% to 12.0%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis.

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**NOTE 7 – RETIREMENT SYSTEM (CONTINUED)**

**Three-Year Trend Information:**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2002	\$ 0	100%	\$ 0
2003	0	100%	0
2004	0	100%	0

**Schedule of Funding Progress:**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/01	7,652,398	\$ 5,049,939	(2,602,459)	152%	\$ 1,600,116	none
12/31/02	7,610,779	\$ 5,629,364	(1,981,415)	135%	\$ 1,699,878	none
12/31/03	8,566,762	\$ 5,909,843	(2,656,919)	145%	\$ 1,804,623	none

**Retiree Health Care Plan**

Bay County Department of Water and Sewer participates in the Bay County Retiree Health Care Plan through the County of Bay. The plan is a single employer defined benefit public health care plan established October 1, 2001. The purpose of the plan is to provide medical and health care benefits for the welfare of certain retirees of the DWS and the spouses and dependents of such retirees who are participants in the Bay County Employees' Retirement System. Benefits under the plan are provided pursuant to a group contract issued by Blue Cross Blue Shield of Michigan. The County Board of Commissioners has the authority to establish and amend benefit provisions.

The Plan is a contributory defined benefit plan which covers substantially all employees of the DWS as defined above. Actuarial data is not available for the DWS.

The DWS contributions to the plan were \$74,665 for 2004, \$68,376 for 2003, and \$64,569 for 2002, representing 4% of covered payroll.

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**NOTE 8 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS**

In addition to the pension benefits described in Note 7, the DWS provides certain health care benefits for retired employees in accordance with contractual agreements. Substantially all of the DWS's employees become eligible for these benefits if they reach normal retirement age while working for the DWS. The benefits are provided through an insurance company whose premiums are based on the benefits paid during the year. The cost of these benefits is recognized as expense when paid and was \$89,032 for 2004. Ten participants were eligible to receive benefits as of December 31, 2004.

**NOTE 9 - SELF INSURANCE**

**Workers' compensation** - The DWS is self-insured for workers' compensation claims. This program is administered by an independent company which furnishes safety inspection, claims review, and claims processing services. The employers' liability maximum limit of indemnity per occurrence is \$1,000,000 and the self insured retention per occurrence is \$350,000. Net cost for the year was \$4,186.

**General, automobile, and errors or omissions liability** - The DWS is a member of the Michigan County Road Commission Self-Insurance Pool. As a member of this pool, the DWS is insured for general, automobile and errors or omissions liability up to a limit of \$10,500,000 per occurrence, subject to a \$1,000 deductible. The DWS would be responsible for losses in excess of the limit. Payments made for the year ended December 31, 2004 were \$57,853.

**Building, contents, off-road equipment and licensed vehicles coverage** - The DWS is a member of the Michigan County Road Commission Self-Insurance Pool. As a member of this pool, the DWS is insured for the lesser of the scheduled value of property or the cost of repairs or replacement. Coverage is subject to a \$500 deductible and the DWS would be responsible for losses in excess of the limit. Payments made for the year ended December 31, 2004 were \$39,291.

**NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES**

At December 31, 2004, the DWS had \$24,954 of outstanding construction contract commitments. These relate to water line construction projects and are funded by the Water Enterprise Funds.

The DWS is engaged in routine litigation incidental to the conduct of its municipal and utilities affairs. In the opinion of legal counsel, no legal proceedings are pending against the DWS, not covered by insurance, which would inhibit the DWS's ability to perform its operations or materially affect its financial condition.

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NOTE 11 - RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Water Enterprise Fund	Bangor Township	Kawlawlin - Fraser	Beaver Township	Beaver Road	Monitor Township	Williams Township	Merritt - Portsmouth	Pinecroft Township	City of Pinecroft	Franklin Township	Subtotal	Water Supply System #1	Bay County Water System	Combined Total
Operating income (loss)	\$ 281,914	\$ (44,856)	\$ (40,055)	\$ (6,441)	\$ 36,336	\$ (9,646)	\$ (40,600)	\$ 42,490	\$ (20,538)	\$ (29,618)	\$ 168,986	\$ 165,113	\$ 4,307	\$ 338,406
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:														
Depreciation	130,179	194,733	52,286	0	104,649	107,866	143,006	11,557	20,339	53,280	817,895	82,436	105,367	1,005,698
Change in assets and liabilities:														
Accounts receivable	2,163	57,322	(287)	(31,451)	9,030	6,109	(3,008)	(3,310)	0	(3,036)	33,532	10,478	(3,647)	40,363
Inventories	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Prepaid and other current assets	(146)	(64)	(7)	0	(66)	(68)	(28)	(8)	0	(36)	(423)	(115)	(57,837)	(57,837)
Accounts payable	(5,881)	(45,421)	(224)	21,728	(46,397)	998	1,663	(10)	0	2,957	(70,587)	99,464	(53,921)	(25,044)
Accrued payroll	975	(343)	13	85	660	14	432	(143)	0	80	1,773	(245)	(20,327)	(18,799)
Advances	0	0	0	0	0	0	0	(16,660)	0	0	(16,660)	0	19,957	3,297
Compensated absences	(456)	(177)	(41)	(64)	(261)	(219)	(118)	(66)	0	(141)	(1,543)	(367)	(13)	(1,923)
Net cash provided (used) by operating activities	\$ 408,748	\$ 161,194	\$ 11,685	\$ (16,143)	\$ 103,951	\$ 105,054	\$ 101,347	\$ 33,850	\$ (199)	\$ 23,486	\$ 932,973	\$ 356,764	\$ (6,114)	\$ 1,283,623

  

Sewer Enterprise Fund	City of Auburn	Bangor Township	Franklin Township	Kawlawlin Township	Monitor Township	Williams Township	Portsmouth Township	City of Essexville	Subtotal	WWTP	Combined Total
Operating income (loss)	\$ (3,435)	\$ 147,845	\$ 205,379	\$ 133,296	\$ (185,824)	\$ 72,524	\$ 43,651	\$ 0	\$ 413,436	\$ (885,617)	\$ (472,181)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:											
Depreciation	3,341	353,892	102,453	90,724	254,178	112,967	192,259	0	1,109,814	690,018	1,799,832
Change in assets and liabilities:											
Accounts receivable	(271)	12,999	(12,103)	(1,005)	9,105	(1,628)	(5,794)	0	1,303	(6,992)	(5,689)
Inventories	0	0	0	0	0	0	(14)	0	0	(197)	(197)
Prepaid and other current assets	0	0	0	0	0	0	(14)	0	(14)	(11,395)	(11,409)
Accounts payable	0	2,874	(41,035)	25,841	0	0	5,367	0	(6,953)	36,850	29,897
Accrued payroll	0	0	0	0	0	0	1	0	1	4,053	4,054
Compensated absences	0	0	0	0	0	0	(41)	0	(41)	(2,738)	(2,799)
Net cash provided (used) by operating activities	\$ (365)	\$ 517,610	\$ 254,694	\$ 248,856	\$ 77,459	\$ 183,863	\$ 235,429	\$ 0	\$ 1,517,546	\$ (176,038)	\$ 1,341,508

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**Comparative Statement of Net Assets**  
**December 31, 2004 and 2003**

	Kawkawlin - Fraser		Williams Township		Merritt - Portsmouth	
	2004	2003	2004	2003	2004	2003
<b>Assets</b>						
Current assets:						
Cash and investments	\$ 484,328	\$ 476,720	\$ 633,254	\$ 605,284	\$ 140,602	\$ 122,789
Accounts receivable	53,687	111,009	79,181	85,290	63,957	60,949
Interest receivable	1,005	343	1,270	442	322	82
Prepaid expenses	1,072	1,008	1,184	1,116	443	415
Total current assets	540,092	589,080	714,889	692,132	205,324	184,255
Restricted assets - cash and investments	8,309	8,309	0	0	0	0
Capital assets - at cost	8,730,302	8,607,468	4,381,133	4,376,776	5,953,087	5,950,893
Less allowance for depreciation	(2,553,805)	(2,359,072)	(1,981,695)	(1,873,829)	(1,180,006)	(1,037,000)
Net capital assets	6,176,497	6,248,396	2,399,438	2,502,947	4,773,081	4,913,893
Total assets	6,724,898	6,845,785	3,114,327	3,195,079	4,978,405	5,098,128
<b>Liabilities</b>						
Current liabilities:						
Bonds payable	141,624	136,624	89,650	87,720	245,000	245,000
Accounts payable	39,143	84,564	67,527	66,529	23,301	21,638
Accrued payroll	179	522	212	198	700	268
Accrued interest payable	33,754	35,780	7,574	8,620	32,439	34,452
Advances	8,309	8,309	0	0	0	0
Compensated absences	2,918	2,900	3,416	3,400	1,093	1,100
Total current liabilities	225,927	268,699	168,379	166,467	302,533	302,458
Long-term liabilities:						
Compensated absences	16,536	16,731	19,355	19,590	6,197	6,308
Bonds payable	1,953,248	2,094,872	856,580	951,230	3,718,000	3,963,000
Total long-term liabilities	1,969,784	2,111,603	875,935	970,820	3,724,197	3,969,308
Total liabilities	2,195,711	2,380,302	1,044,314	1,137,287	4,026,730	4,271,766
<b>Net Assets</b>						
Investment in capital assets - net of related debt	4,047,871	3,981,120	1,445,634	1,455,377	777,642	671,441
Restricted	0	0	22,000	22,000	0	0
Unrestricted	481,316	484,363	602,379	580,415	174,033	154,921
Total net assets	\$ 4,529,187	\$ 4,465,483	\$ 2,070,013	\$ 2,057,792	\$ 951,675	\$ 826,362

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**Comparative Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**For the Years Ended December 31, 2004 and 2003**

	Kawkawlin - Fraser		Williams Township		Merritt - Portsmouth	
	2004	2003	2004	2003	2004	2003
Gross service charges	\$ 791,901	\$ 836,342	\$ 498,320	\$ 512,305	\$ 251,796	\$ 168,810
Water costs	424,424	485,598	250,373	249,423	83,622	84,183
Gross profit	367,477	350,744	247,947	262,882	168,174	84,627
Operating revenues:						
Service connections	28,340	26,770	28,855	25,465	27,265	114,098
Charges, fees, etc.	3,695	2,334	5,565	2,159	2,119	1,360
Total operating revenues	32,035	29,104	34,420	27,624	29,384	115,458
Operating expenses:						
Personal services	96,583	110,913	117,653	95,562	64,197	94,858
Utilities	1,486	1,641	11,267	15,927	2,628	2,744
Operation and maintenance	126,274	26,353	27,914	23,282	16,800	21,800
Administration	18,549	17,865	18,119	20,225	8,137	12,150
Fiscal and other charges	6,743	6,165	9,194	8,500	3,390	2,945
Depreciation	194,733	194,094	107,866	107,866	143,006	143,006
Total operating expenses	444,368	357,031	292,013	271,362	238,158	277,503
Operating income (loss)	(44,856)	22,817	(9,646)	19,144	(40,600)	(77,418)
Nonoperating revenues (expenses):						
Interest income	0	4,426	0	5,864	0	1,372
Interest expense	5,665	(111,455)	7,087	(61,436)	1,985	(209,386)
Capital contributions by local units	(104,825)	0	(56,058)	0	(197,684)	133
Payment by local unit	0	150,924	0	48,550	364,871	372,671
Payment to local unit	208,195	0	70,838	0	(3,259)	(51,475)
Operating transfers in (out)	(475)	0	0	0	0	0
Change in net assets	63,704	66,712	12,221	12,122	125,313	35,897
Net assets - beginning of year	4,465,483	4,398,771	2,057,792	2,045,670	826,362	790,465
Net assets - end of year	\$ 4,529,187	\$ 4,465,483	\$ 2,070,013	\$ 2,057,792	\$ 951,675	\$ 826,362



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Comparative Statement of Cash Flows

For the Years Ended December 31, 2004 and 2003

	Kawkawlin - Fraser		Williams Township		Merritt - Portsmouth	
	2004	2003	2004	2003	2004	2003
Cash flows from operating activities:						
Cash received from customers	\$ 849,223	\$ 836,482	\$ 504,429	\$ 526,947	\$ 248,788	\$ 175,951
Cash payments to suppliers for goods and services	(622,961)	(523,835)	(315,937)	(308,518)	(112,942)	(120,425)
Cash payments to employees for services	(97,103)	(108,321)	(117,858)	(93,523)	(63,883)	(92,823)
Other operating income	32,035	29,104	34,420	27,624	29,384	115,458
Net cash provided by operating activities	161,194	233,430	105,054	152,530	101,347	78,161
Cash flows from capital and related financing activities:						
Advances (payments) from (to) other funds	(475)	0	0	0	0	0
Principal paid on long-term debt	(136,624)	(136,624)	(92,720)	(72,720)	(245,000)	(243,000)
Interest paid on long-term debt	(106,851)	(113,537)	(57,104)	(62,185)	(199,697)	(211,373)
Payments from (to) local units	208,195	150,924	70,838	48,550	361,612	321,329
Acquisition and construction of capital assets	(122,834)	(51,015)	(4,357)	0	(2,194)	0
Net cash used by capital and related financing activities	(158,589)	(150,252)	(83,343)	(86,355)	(85,279)	(133,044)
Cash flows from investing activities:						
Interest and investment earnings	5,003	4,426	6,259	5,894	1,745	1,383
Net increase (decrease) in cash and cash equivalents	7,608	87,604	27,970	72,069	17,813	(53,500)
Cash and cash equivalents, beginning of year	485,029	397,425	605,284	533,215	122,789	176,289
Cash and cash equivalents, end of year	\$ 492,637	\$ 485,029	\$ 633,254	\$ 605,284	\$ 140,602	\$ 122,789

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 Comparative Statement of Reconciliation of Operating Income to  
 Net Cash Provided by Operating Activities  
 For the Years Ended December 31, 2004 and 2003

	Kawkawlin - Fraser		Williams Township		Merritt - Portsmouth	
	2004	2003	2004	2003	2004	2003
Operating income (loss)	\$ (44,856)	\$ 22,817	\$ (9,646)	\$ 19,144	\$ (40,600)	\$ (77,418)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	194,733	194,094	107,866	107,866	143,006	143,006
Change in assets and liabilities:						
Accounts receivable	57,322	140	6,109	14,642	(3,008)	7,141
Prepaid and other current assets	(64)	(278)	(68)	(417)	(28)	(115)
Accounts payable	(45,421)	14,065	998	9,256	1,663	3,512
Accrued payroll	(343)	390	14	133	432	154
Compensated absences	(177)	2,202	(219)	1,906	(118)	1,881
Net cash provided by operating activities	<u>\$ 161,194</u>	<u>\$ 233,430</u>	<u>\$ 105,054</u>	<u>\$ 152,530</u>	<u>\$ 101,347</u>	<u>\$ 78,161</u>

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**Comparative Statement of Net Assets**  
**December 31, 2004 and 2003**

	<u>Assets</u>	
	<u>2004</u>	<u>2003</u>
Current assets:		
Cash and investments	\$ 1,223,447	\$ 1,436,346
Accounts receivable	26,469	19,477
Interest receivable	1,735	884
Due from other funds	0	62,692
Inventory	20,325	8,930
Prepaid expenses	20,762	20,565
Total current assets	<u>1,292,738</u>	<u>1,548,894</u>
Capital assets - at cost	37,528,642	37,427,442
Less allowance for depreciation	<u>(20,830,150)</u>	<u>(20,151,426)</u>
Net capital assets	<u>16,698,492</u>	<u>17,276,016</u>
Total assets	<u>17,991,230</u>	<u>18,824,910</u>
	<u>Liabilities</u>	
Current liabilities:		
Accounts payable	124,991	88,141
Accrued payroll	20,652	16,599
Compensated absences	46,729	47,100
Total current liabilities	<u>192,372</u>	<u>151,840</u>
Long-term liabilities:		
Compensated absences	264,798	267,185
Total long-term liabilities	<u>264,798</u>	<u>267,185</u>
Total liabilities	<u>457,170</u>	<u>419,025</u>
	<u>Net Assets</u>	
Investment in capital assets - net of related debt	16,698,492	17,276,016
Restricted	361,996	1,158,239
Unrestricted	<u>473,572</u>	<u>(28,370)</u>
Total net assets	<u>\$ 17,534,060</u>	<u>\$ 18,405,885</u>

**Board of County Road Commissioners**  
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**Bay County West Side Regional Sewage Disposal System**  
**Comparative Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**For the Years Ended December 31, 2004 and 2003**

	2004	2003
Operating revenues:		
Regional charges	\$ 1,632,166	\$ 1,608,374
Dumping fees, etc.	173,421	112,255
Total operating revenues	<u>1,805,587</u>	<u>1,720,629</u>
Operating expenses:		
Personal services	1,285,249	1,245,545
Utilities	231,667	216,209
Chemicals	70,113	66,680
Operation and maintenance	255,376	224,314
Capital outlay	0	79,442
Fiscal and other charges	9,876	10,985
Administration	148,905	121,299
Total operating expenses	<u>2,001,186</u>	<u>1,964,474</u>
	(195,599)	(243,845)
Local operation and maintenance:		
Local operation and maintenance charges	510,714	550,704
Local operation and maintenance expenses	<u>(510,714)</u>	<u>(550,704)</u>
Operating income (loss) before depreciation	(195,599)	(243,845)
Depreciation expense	<u>690,018</u>	<u>681,908</u>
Operating income (loss)	<u>(885,617)</u>	<u>(925,753)</u>
Nonoperating revenues (expenses):		
Interest income	13,792	16,225
Operating transfers in (out)	0	13,461
Capital contributions	0	65,981
Total nonoperating revenues (expenses)	<u>13,792</u>	<u>95,667</u>
Change in net assets	(871,825)	(830,086)
Net assets - beginning of year	<u>18,405,885</u>	<u>19,235,971</u>
Net assets - end of year	<u><u>\$ 17,534,060</u></u>	<u><u>\$ 18,405,885</u></u>

**Board of County Road Commissioners**  
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**Bay County West Side Regional Sewage Disposal System**  
**Comparative Statement of Cash Flows**  
**For the Years Ended December 31, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Cash received from customers	\$ 1,625,174	\$ 1,609,479
Cash payments to suppliers for goods and services	(1,201,393)	(1,261,023)
Cash payments to employees for services	(1,283,954)	(1,207,681)
Other operating income	<u>684,135</u>	<u>662,959</u>
Net cash provided (used) by operating activities	<u>(176,038)</u>	<u>(196,266)</u>
Cash flows from capital and related financing activities:		
Advances (payments) from (to) other funds	62,692	(27,210)
Proceeds from long-term debt	0	15,147
Payments from (to) local units	0	65,981
Acquisition and construction of capital assets	<u>(112,494)</u>	<u>(41,941)</u>
Net cash provided (used) by capital and related financing activities	<u>(49,802)</u>	<u>11,977</u>
Cash flows from investing activities:		
Interest and investment earnings	<u>12,941</u>	<u>16,489</u>
Net increase (decrease) in cash and cash equivalents	(212,899)	(167,800)
Cash and cash equivalents, beginning of year	<u>1,436,346</u>	<u>1,604,146</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,223,447</u></u>	<u><u>\$ 1,436,346</u></u>

**Board of County Road Commissioners**  
**County of Bay**  
**Department of Water and Sewer**  
 Bay County West Side Regional Sewage Disposal System  
 Comparative Statement of Reconciliation of Operating Income to  
 Net Cash Provided by Operating Activities  
 For the Years Ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Operating income (loss)	\$ (885,617)	\$ (925,753)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	690,018	681,908
Change in assets and liabilities:		
Accounts receivable	(6,992)	1,105
Inventories	(197)	1,597
Prepaid and other current assets	(11,395)	(1,137)
Accounts payable	36,850	8,150
Accrued payroll	4,053	9,572
Compensated absences	<u>(2,758)</u>	<u>28,292</u>
Net cash provided (used) by operating activities	<u><u>\$ (176,038)</u></u>	<u><u>\$ (196,266)</u></u>

# Board of County Road Commissioners

## County of Bay

### Department of Water and Sewer

#### Bay County West Side Regional Sewage Disposal System

#### Comparative Statement of Details of Local Operation and Maintenance Expenses

Year Ended December 31, 2004

	Total	City of Auburn	Bangor Township	Frankenlust Township	Kawkawlin Township	Monitor Township	Williams Township
Personal services	\$ 317,640	\$ 1,561	\$ 133,173	\$ 27,017	\$ 54,616	\$ 67,207	\$ 34,066
Utilities	48,317	1,268	13,540	4,070	7,964	15,666	5,809
Operation and maintenance	41,743	86	18,978	3,439	5,984	10,212	3,044
Administration	103,014	682	50,069	8,417	11,218	25,488	7,140
Total	<u>\$ 510,714</u>	<u>\$ 3,597</u>	<u>\$ 215,760</u>	<u>\$ 42,943</u>	<u>\$ 79,782</u>	<u>\$ 118,573</u>	<u>\$ 50,059</u>

Year Ended December 31, 2003

	Total	City of Auburn	Bangor Township	Frankenlust Township	Kawkawlin Township	Monitor Township	Williams Township
Personal services	\$ 328,714	\$ 3,562	\$ 150,822	\$ 33,585	\$ 28,352	\$ 78,560	\$ 33,833
Utilities	52,828	831	12,379	5,435	8,415	17,769	7,999
Operation and maintenance	63,387	255	39,164	2,554	3,866	13,425	4,123
Administration	105,775	932	53,948	9,135	9,657	25,014	7,089
Total	<u>\$ 550,704</u>	<u>\$ 5,580</u>	<u>\$ 256,313</u>	<u>\$ 50,709</u>	<u>\$ 50,290</u>	<u>\$ 134,768</u>	<u>\$ 53,044</u>



# WEINLANDER FITZHUGH

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ROBERT J. DUYCK, CPA

March 21, 2005

Board of County Road Commissioners  
Bay County Department of Water and Sewer  
Bay County, Michigan

We have completed our audit of the Kawkawlin – Fraser, Williams, and Merritt - Portsmouth Township Water Extension Projects of the Bay County Department of Water and Sewer for the year ended December 31, 2004. Our audit dated March 21, 2005 contained within was made in accordance with U.S. generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The system of internal control of the Kawkawlin – Fraser, Williams, and Merritt - Portsmouth Townships Water Extension Projects of the Bay County Department of Water and Sewer is adequate.

The accounting records are adequate.

The physical control over assets is adequate.

The financial records included in the audit are in agreement with accounting records of the Department. No material or unusual adjustments were required.

All cash in banks at December 31, 2004 is deposited in institutions insured by the federal government, but are subject to the overall limits of Bay County.

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-36-

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# WEINLANDER FITZHUGH

Board of County Road Commissioners  
Bay County Department of Water and Sewer  
March 21, 2005

The types and amounts of insurance coverage are as follows for the project:

## KAWKAWLIN - FRASER

<u>Type of Coverage</u>	<u>Policy Number</u>	<u>Coverage Amount</u>	<u>Policy Expiration Date</u>
Property	PHYS-0901-U	\$ 404,670	4/1/2005
Liability	MCRP-0901-U	10,500,000	4/1/2005
Workers compensation (Self-insured for first \$350,000)	SP-7615-MI	1,000,000	1/1/2005
Fidelity bond - covering the Director, Accountant and Bookkeeper	8603448	300,000	12/5/2005

## WILLIAMS

<u>Type of Coverage</u>	<u>Policy Number</u>	<u>Coverage Amount</u>	<u>Policy Expiration Date</u>
Property	PHYS-0901-U	\$ 596,600	4/1/2005
Liability	MCRP-0901-U	10,500,000	4/1/2005
Workers compensation (Self-insured for first \$350,000)	SP-7615-MI	1,000,000	1/1/2005
Fidelity bond - covering the Director, Assistant Director and Bookkeeper	8273395	50,000	12/22/2005



# WEINLANDER FITZHUGH

Board of County Road Commissioners  
Bay County Department of Water and Sewer  
March 21, 2005

## MERRITT - PORTSMOUTH

<u>Type of Coverage</u>	<u>Policy Number</u>	<u>Coverage Amount</u>	<u>Policy Expiration Date</u>
Property	PHYS-0901-U	\$ 420,000	4/1/2005
Liability	MCRP-0901-U	10,500,000	4/1/2005
Workers compensation (Self-insured for first \$350,000)	SP-7615-MI	1,000,000	1/1/2005
Fidelity bond - covering the Director, Fiscal Officer and Bookkeeper	8103766	30,000	5/19/2005

No unsatisfactory conditions came to our attention during the year under audit.

An aging of the accounts receivable as of December 31, 2004 is as follows:

	<u>Total</u>	<u>0 - 30</u>	<u>31 - 60</u>	<u>61 - 90</u>	<u>91 +</u>
Kawkawlin - Fraser	\$ 53,687	\$ 51,817	\$ 0	\$ 0	\$ 1,870
Williams	79,181	75,581	0	0	3,600
Merritt - Portsmouth	63,957	62,412	0	0	1,545



# WEINLANDER FITZHUGH

Board of County Road Commissioners  
Bay County Department of Water and Sewer  
March 21, 2005

Bay County Department of Water and Sewer (DWS), Bay County, and the Townships of Kawkawlin - Fraser, Williams, and Merritt - Portsmouth are exempt from federal income tax.

The total number of current customers is as follows:

	<u>Kawkawlin - Fraser</u>	<u>Williams</u>	<u>Merritt - Portsmouth</u>
Residential customers	1,558	1,494	663
Commercial customers	<u>110</u>	<u>70</u>	<u>30</u>
	<u>1,668</u>	<u>1,564</u>	<u>693</u>

The following is a list of the names and addresses of all members of the governing body, as appropriate, with their office and term of office for the Bay County Board of County Road Commissioners:

Mr. Gerald M. Redmond, Chairman  
4836 Bonnie Drive  
Bay City, Michigan 48706  
1/1/05 through 12/31/10

Mr. Michael Studders, Vice Chairman  
215 Ames Street  
Bay City, Michigan 48708  
1/1/01 through 12/31/06

Mr. Robert A. Lewandowski, Member  
2701 22nd Street  
Bay City, Michigan 48708  
1/1/03 through 12/31/08

We would like to thank your personnel for their assistance during the audit. Should you have any questions regarding the above or if we can be of further assistance to you, please contact our office at your convenience.

*Weinlander Fitzhugh*



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March 21, 2005

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of County Road Commissioners  
Bay County Department of Water and Sewer  
Bay County, Michigan

We have audited the basic financial statements of the Bay County Department of Water and Sewer as of and for the year ended December 31, 2004, and have issued our report thereon dated March 21, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Bay County Department of Water and Sewer's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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# WEINLANDER FITZHUGH

Board of County Road Commissioners  
Bay County Department of Water and Sewer  
March 21, 2005

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bay County Department of Water and Sewer basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no issuances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information of the Board of County Road Commissioners, management and related regulatory agencies and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

*Weinlander Fitzhugh*